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## STRATEGIES FOR DEVELOPING AFRICAN RURAL ECONOMY

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*Introduction*

## **Strategies for Developing African Rural Economy**

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**T**he African rural economy has been a topic of interest for policymakers and economists worldwide. The continent's rural communities have the potential to contribute significantly to economic growth, social development, and poverty reduction through the promotion of a diversified and productive agricultural sector. This essay aims to explore and evaluate a range of strategies for developing African rural economies. At its core, the essay seeks to provide a comprehensive overview of the key constraints and challenges facing rural communities, as well as the opportunities that exist for sustainable and inclusive development. Ultimately, the objective is to offer insights and recommendations that can support efforts towards the revitalization of rural economies in Africa.

The African rural economy has been facing many challenges in recent decades. Poverty, low productivity, and inadequate infrastructure have contributed to this issue. As a result, rural areas have seen a significant decline in employment opportunities, leading to the migration of the population to urban areas in search of better livelihoods. This has resulted in continued population growth in urban areas, exacerbating the problem of inadequate resources and weakening the rural economy further. Developing the African rural economy is, therefore, crucial for the economic growth of the continent. It is essential to note that rural areas make up over 60% of the continent and, thus, cannot be ignored if Africa is to achieve sustainable development.

### **Primary Sectors of the African Rural Economy**

The primary sectors of the African rural economy include agriculture and livestock rearing, which remain the backbone of most African economies. However, productivity in these sectors has been low due to various reasons, including limited

access to modern technologies and inadequate investment in research and development. A key strategy towards enhancing productivity in these sectors is through agribusiness, which involves the value addition and processing of agricultural produce. This approach also encourages small-scale farmers to form cooperative societies, which can enable access to better markets and finance. The creation of enabling policies, infrastructure, and institutions that prioritize small-scale farmers is essential for the growth and development of agribusiness and the primary sectors of the African rural economy.

### **Strategies for Developing African Rural Economy**

1. **Investing in Agriculture:** The importance of investing in agriculture cannot be overstated when it comes to developing the African rural economy. It is a sector that provides employment, supports livelihoods, and contributes to economic growth. Governments and private sector entities must address challenges in infrastructure, financing, access to technology, and markets to help increase productivity and the competitiveness of African agricultural products on the global market. In addition, investing in research and development, capacity building, and extension services can help increase knowledge and skills to improve production and efficiency. Governments must adopt predictable and stable policies, regulatory frameworks, and legal systems that will provide incentives for private sector investment in agriculture.
2. **Improving the Business Environment:** Improving the business environment would be critical to fostering rural economic growth in Africa. The ease of doing business, access to finance, and market stability are all crucial components that impact the success of businesses in rural areas. Therefore, governments and private sector players should work together to create supportive systems that encourage investment in rural areas. Policies aimed at reducing bureaucracy, increasing access to credit, and improving infrastructure should be implemented. Also, the government should establish institutions to educate rural entrepreneurs on business operations and provide funding opportunities. Such initiatives would help to increase job creation, reduce migration to urban areas, and ultimately reduce poverty in rural areas.
3. **Human Resource Development:** This is critical for the development of Africa's rural economy. Human resource development refers to the process of providing education, training, and skills development opportunities to individuals and groups. It is a crucial tool for economic growth and poverty

reduction. In the context of Africa's rural economy, human resource development can play a vital role in empowering local communities, improving agricultural productivity, and promoting entrepreneurship. Moreover, investing in human resource development can enhance social cohesion, reduce inequality, and promote sustainable development. In this regard, African governments should prioritize investment in human resource development to accelerate rural economic development.

4. **Enhancing Micro-Finance and Access to Credit:** Another strategy for developing the African rural economy is to enhance micro-finance and access to credit. Microfinance institutions play a significant role in providing financial services to those who are excluded from the traditional banking system. By providing small loans to individuals, particularly women and youth, they can start or expand their small businesses. Moreover, access to credit is crucial to stimulating economic growth in rural areas, as it enables farmers to purchase seeds, fertilizers, and other farming inputs. Strengthening the capacity of microfinance institutions and improving access to formal credit systems can have a positive impact on the African rural economy.

The African rural economy has the potential to flourish if the right strategies are put in place. The development of infrastructure, access to credit facilities, and promotion of small and medium enterprises are vital to the growth of the rural economy. Additionally, the integration of technology and sustainable farming practices can bring significant transformation to the African rural economy. Lastly, collaboration and coordination among the stakeholders, including governments, non-governmental organizations, and the private sector, are necessary to ensure the success of these strategies. Thus, developing the African rural economy is not only an economic imperative but also a moral obligation to lift millions of people out of poverty.

## **Harnessing Rural Agricultural Potentials: A Combatant Approach to Economic Recessions & Rural Development in Africa**

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**E**conomic recession is a fiend that intermittently invades African countries and wipes away all hard-earned benefits of economic growth over years. For instance, the economic growth rate of Nigeria between 2011 to 2015 was 4.7% but when a recession occurred in 2016, the growth rate degenerated to – 1.5% (kyarem, et al.,2017), and by the time the menace was said to have been over, Nigeria was declared the *poverty capital of the world* in 2020 (European Commission Nigeria, 2020). Not just Nigeria, all countries visited by recession end up with more deplorable socio-economic indices than before its arrival. In most African countries, the rural areas are worse off during and after the advent of a recession. There is therefore serious need for a framework that would either stop the advent of a recession, or truncate its survival when it inevitably comes. Such framework should also ensure and stimulate economic growth at the rural areas if sustainable growth and development of African countries must be a reality.

The vulnerability of African countries to economic shocks is not in doubt. The weak real production sector and the heavy dependence on imports necessitates the eminency of shocks that results often to recessions. Economic recessions are times when macroeconomic variables trend negative as prices of foodstuff skyrockets, unemployment blossoms and poverty increase. These periods leave behind abject squalor and frustrated economic plans and programmes hence policy makers often make frantic efforts to truncate this unwanted visitor. It is unfortunate that in almost all African countries, no pre-recession frameworks are on ground hence recessions usually come unexpected and with no existing framework to combat them. The

history of trade cycle of nations depicts booms and dooms (recessions) and hence it is an obvious reality that all nations should expect periodic visitations of recessions. This is more so for African countries because globalization which can domesticate recessions from far countries like the Chinese-originated COVID-19 recession between 2019 and 2020 that affected all African countries. The claim of overcoming various recessions in Africa in countries like Nigeria, Ghana and Kenya seems cosmetic as the aftermath of the event is often abhorrent socio-economic indices. This is attested to by the over 3 billion Africans presently living in abject poverty (Umo, 2012) which cannot be isolated from the frequent and intermittent attacks from various recessions. It is therefore necessary that African countries should produce indigenous agriculturally based anti-recession frameworks that would facilitate sustainable economic growth in rural areas where majority of the African population dwells. This framework will also serve as an anti-recession organ to be mobilised and directed to truncate any invasion from economic recession. It will be a saviour from the vainly and beggarly approach that depends on the Britton woods institutions at the advent of economic crisis as the culture has been over decades.

#### **Rural Agricultural Potentials in Africa**

The conspicuous character of the economies of African countries is the predominance of the rural agricultural sector (Agarwal, 2017). There are amazing potentials that could be harness for rural development, national food sustainability and foreign exchange earnings. It is the unorganised nature of the rural sectors that makes this dominant sector vulnerable to economic shocks and hence exposed national economies of Africa recessions and subsequent odiousness. Of the 54 countries in Africa, more than 46 of them are classified as developing countries – countries whose mainstay is primary agricultural products (Isgesociety, 2018). In the present unorganised nature, the African rural farming sectors are basically peasantry and yet they contribute immensely. In the West African country of Nigeria for instance, agriculture is rural based and unorganised yet it contributed 87.34% to nominal GDP in the Q2 2020 at the height of COVID 19 recession (CBN, 2020). Potentials in crops like sesame seeds, Cashew nuts, Superior quality raw cocoa beans among many others has sustained the country greatly in the last 2 decades.

In Ghana, the total contribution of the sector to the GDP between 2006 and 2020 constituted 29.27% total employment. For Senegal, agriculture contributed 14.8% to her GDP in same period while in Gambia three-quarters of the population depends on rural agriculture for livelihood (Mubarik, 2020).

In North Africa, the story is same. Egypt is a major world agricultural export of potatoes, cotton, and fresh fruit. In 2020, it contributed 28% of job opportunities and 55% of rural employment. In East Africa, Kenya is one of the world's leading exporters

of black tea, cut flowers and vegetables. Agriculture contributes 33% of Kenya's Gross Domestic Product, employs 70% of the rural population which represent 40% of the total population between 2019 and 2021. 10% of South Africa's total export earnings for over 2 decades now comes from citrus, wine, table grapes, corn and wool. The story is similar to all African countries. Gambia has 16.79% of her GDP from agriculture, Liberia has 39.11%, and Guinea has 20.34% and 20.3% for Burkina Faso (www.egypttoday.com › Agriculture; ACP, (1996); Nigeria, (2020)).

With the capacity for immense employment, sustainable supply of food and potentials for foreign earnings, the rural sector of African countries can be turned into a hub for economic growth and also a standing panacea for any invasion of economic recession. For this to become a reality, the unorganised rural setup and disorganised rural peasant agricultural structure must be re-organised.

### **The Restructuring of Rural Peasant Agriculture**

The weak and unorganised import dependent and neglected agricultural sectors of African countries make economic recessions inherent and eminent. The general expectation that economic recessions should be avoided or terminated quickly when it invades can only be realised when emphasis is placed on cereal like rice and root crops like cassava whose production cycle lies between 3 to 9 months. The following restructuring steps serve as a guide:

1. The government shall ensure there exist an active parastatal in charge of rural development with emphasis on rural agriculture. Clear guidelines highlighting aims and objectives should be well-coordinated and documented.
2. Rural farmers' cooperative societies shall be formed under the co-supervision of specially trained rural development agents and the traditional rulers in the rural areas. This will ensure access to land, security needed for activities, traditional African honesty and general cooperation.
3. The Cooperative societies should operate on Public- Private Partnership. Government or private soft loans should be granted to members in phases that align with the production cycle of the crop concern.
4. Minimal cash transactions should exist (basic running cost). Farm tools, instruments and materials should be given in kind.
5. The reorganization should cover all areas of farming like planting, harvesting, storage and marketing.

With this, the rural economies of Africa shall open up to growth and development. The agriculture sectors will be dynamic enough to absorb shocks to the national economy, employ the unemployed, supply sustainable food and contribute the scarce foreign

earnings. Above all, the rural economies of African countries shall become a solid monolithic panacea for truncating any recession, if it ever surfaces.

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# *Executive Summary*

## *Executive Summary*

# **Strengthening the Rural Economy**

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**Council of Economic Advisers**  
*Washington DC, United State*

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**R**ural areas are home to about 50 million Americans and are an essential part of the overall economy. This report surveys the current state of rural America and describes the Obama Administration's policies for strengthening the rural economy. Many of these policies are already being implemented through the American Recovery and Reinvestment Act of 2009. But further work remains to ensure the prosperity and vitality of rural America.

### **The Current State of Rural America**

Our survey of the current state of rural America identifies both important strengths and significant challenges facing the rural economy.

1. The rural economy is more economically diverse than it once was. Agriculture directly employs only a small fraction of rural workers, though ancillary businesses are included in other sectors. Manufacturing, services, government, and wholesale and retail trade are important additional sources of rural employment.
2. The U.S. agricultural sector remains more productive than those of other high-income countries and is highly competitive in international markets.
3. The labor force of rural America is aging and its educational attainment lags behind that of urban areas for the working-age population.
4. Improvements in health status in rural areas have not kept pace with those in urban areas, and access to doctors and health services has been an important challenge in rural areas.

### **Growing New Businesses in Rural Areas**

One key category of Administration policies for strengthening rural America is focused on growing businesses and expanding employment opportunities.

1. The Recovery Act greatly increased support for small business lending through the Small Business Administration (SBA). The dollar value of SBA

### **Investing in the Education and Health of Rural Communities**

Through the Recovery Act and other legislation, the Federal government is making key investments in rural education and health care to reduce disparities between rural and urban areas.

1. The State Fiscal Stabilization Fund in the Recovery Act is providing \$7 billion for education in rural communities as a down payment on the President's broader goal of creating a more educated rural workforce.
2. The President's American Graduation Initiative, together with infrastructure investments in rural broadband, will help make high-quality online courses available, especially benefiting rural areas.
3. The Recovery Act invests nearly \$26 billion in health information technology, which is likely to be particularly valuable in dealing with the unique difficulties rural residents face in accessing doctors and hospitals.
4. In addition to the benefits provided to all Americans, health insurance reform through the Patient Protection and Affordable Care Act provides special support for the rural medical workforce by expanding graduate medical education positions in rural teaching hospitals and by supporting training for doctors and nurses in rural health care.

### **Conclusion**

The history of rural America is one of proud accomplishment. American agricultural productivity is among the very highest in the world and agricultural products are important exports. Rural America also contributes to the production of U.S. goods and services in many other sectors including manufacturing, services, government, and wholesale and retail trade. The President is committed to ensuring that the future of rural America is as distinguished as its past. The Administration is actively taking steps to put rural Americans on a path toward greater prosperity through a wide range of policies. One set of policies seeks to promote rural businesses and further the diversification of the rural economy by helping rural small business, fostering rural areas' role in leading the clean energy transformation, and encouraging rural recreation and tourism. Other policies are providing crucial investments in rural infrastructure in telecommunications, water distribution, and other areas. To promote the continued vitality of American agriculture, the Administration is working to open foreign markets, improve farm income support programs, and promote local and regional food systems. The Administration is also working to strengthen the rural labor force through initiatives in education and healthcare. Crucial steps to strengthening the rural economy are already being taken through the Recovery Act and other policies. These steps include investments in areas ranging from health information technology and education to infrastructure and small

business loans; comprehensive health insurance reform that will have large benefits for rural communities; and much more. The Administration is committed to building on these unprecedented measures in the months and years to come.

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<https://obamawhitehouse.archives.gov/administration/eop/cea/factsheets-reports/strengthening-the-rural-economy/executive-summary>

## *Executive Summary*

# **Rural Development Strategy Review of Ethiopia: Reaping the Benefits of Urbanisation**

OECD Library  
Washington D.C., United States

Since the mid-1990s, Ethiopia has implemented a series of successful strategies to promote economic growth and social progress, and improve rural population well-being. These reforms have led Ethiopia to experience sustained growth between 2004 and 2018, with an average annual growth rate of gross domestic product (GDP) per capita of 7.4%, outperforming most sub-Saharan African countries. Moreover, large government investment has been directed at improving agricultural productivity, as well as addressing the multiple needs of rural populations. As a result, between 2000 and 2016, the share of rural population considered poor decreased from 45% to 25%.

The backbone of Ethiopia's reforms is the Agricultural Development-Led Industrialisation (ADLI) policy framework. It has been guiding rural development action since the mid-1990s. It provided the basis for several development plans and programmes (SDPRP, PASDEP, GTP I, and GTP II). ADLI accounts for a number of different policies but its main objective is to increase agricultural productivity. This approach seemed adequate at the time it was conceived, given the socio-economic context and low base from which Ethiopia's growth process started. However, today the country stands at a different stage of development, facing a different set of challenges from those that motivated ADLI.

More specifically, three transformations are currently underway in Ethiopia, and will have major effects on the well-being of rural populations:

- 1. Demographic:** Ethiopia is in the early stages of its demographic transition, i.e. the country's population will continue to grow between now and 2050, which means a large number of people will enter the labour market in the coming years. This is of particular significance in rural areas where fertility rates are higher.

2. **Economic:** The agricultural sector's contribution to GDP is decreasing. However, more than two-thirds of employment is still in agriculture and the rural non-farm economy remains premature, i.e. a slow structural transformation process.
3. **Spatial:** Ethiopia will remain a predominantly rural country until 2050, i.e. more than 50% of the population is expected to live in rural areas. However, it is urbanising fast: urban population is expected to double between 2015 and 2030. Although the country is currently characterised by a monocentric urban system, urbanisation is being propelled by intermediary cities.

Intermediary cities will play a key role in addressing some of the challenges linked to these three transformations. Intermediary cities facilitate rural-urban transformation by linking rural areas and small towns with larger cities. They do so by providing market centres and post-gate farming services, including processing, storage, and distribution activities that are necessary for the development of value chains. They offer job opportunities for rural migrants, and increasing evidence suggests that they have a strong potential for poverty reduction. However, they face several binding constraints including: limited knowledge about the socio-economic processes shaping agglomeration effects, lack of adequate policies, as well as a consistent financing gap.

Effectively addressing Ethiopia's transformations will depend on the capacity of institutions and policies to adapt. In practice, it will require a paradigm shift in Ethiopia's approach to rural development: update the ADLI in order to capture the country's new reality and ensure an inclusive rural-urban transformation.

Four main reforms can strengthen Ethiopia's rural development strategy:

1. **A new approach to agricultural development:** Agriculture will continue to play a key role in Ethiopia's development. However, as the country transforms, its approach to agriculture has to evolve from focusing mostly on improving agricultural supply, to improving productivity of all elements of the agricultural value chains. The development of wholesale, distribution and commercialisation of agricultural goods can promote employment opportunities that benefit both urban and rural dwellers. This requires additional investment in transportation networks and infrastructure for the development of post-harvest activities, such as processing and storage.
2. **Mobilising resources and scaling up investment to improve the well-being of rural populations:** Investment in basic services and fostering job creation will remain key to consolidate Ethiopia's rural development efforts. Although the government of Ethiopia has significantly invested in infrastructure, the gap between rural and urban areas prevails. Limited access to electricity, road,

water and sanitation services, contributes to the high level of deprivation in rural areas, and limits the potential for rural economic diversification. More investment in basic services can enhance job creation in farm and off-farm sectors and improve rural well-being. This will require creating a conducive environment for the private sector, and promoting the entry of new actors, including small and large enterprises, especially in intermediary cities and small towns.

3. Enhancing co-ordination between rural and urban policies: Ethiopia has excelled in multi-sectoral interventions for rural development. However, rural and urban policies are implemented in silos, with limited co-ordination among rural and urban policies. As a result, the socio-economic interactions between the two areas are not fully captured; and policies do not seem to take into account or harness the changing dynamics of Ethiopia's urban and rural realities. To reduce policy fragmentation, authorities could build on Ethiopia's multi-level governance framework, which provides scope for better territorial governance. This will require improving the capacity of authorities at both national and sub-national levels.
4. Complementing the existing policy framework with a territorial approach: Effective territorial approaches capture the multi-dimensional needs of rural areas, and their interactions and linkages with urban areas. They account for the needs of the multiple rural stakeholders who contribute to Ethiopia's rural transformation. This requires Ethiopian authorities to improve the knowledge base on rural-urban interactions, i.e. invest in research activities that allow policy makers to better understand the linkages between rural and urban areas. A first step in this direction is to revise the definition of rural and urban areas, and base policy decisions on urban-rural typologies that do not rely on administrative boundaries. Furthermore, developing spatial plans at the regional level would help understand the roles of population centres within regional urban systems and in turn, design more accurate policy interventions.

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<https://www.oecd-ilibrary.org/sites/12dd129b-en/index.html?itemId=/content/component/12dd129b-en>

## Chapter 1

# Models of Rural Development and Approaches to Analysis Evaluation and Decision-Making

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### Abstract

*The recent increase in emphasis on evidence-based policy must be applauded from a number of perspectives. It is good from a social point of view because policy-making ought to be more precisely developed and targeted as a result of taking research findings into account; likewise, for academic and other researchers, more attention to their efforts to understand the mechanisms and impact of policy intervention provides an incentive to focus on immediate and relevant questions. However, in the specific case of rural development there are some fundamental barriers to analysis and evaluation of policy which need to be resolved. The most important of these stems from the fact that rural development, while it might reasonably in the past have been viewed in terms of sectoral policy, has shifted to a territorial policy, or arguably, further towards a "local" policy. Longstanding controversies exist regarding the nature, scope and definition of rural territory itself. Different designations provide arbitrarily different results, and those which are based on some kind of threshold.*

### Introduction

In England, the re-organisation of ministerial responsibility following on from the foot-and-mouth disease outbreak resulted in a Department of Environment, Food and Rural Affairs (Defra), at least part of which has a remit based on an uncertain



geography: consequently, it sought an entirely new definition, based on an “underlying settlement classification” built up from the location of individual households, in an attempt to uncover the “needs of rural areas and communities” (Defra, 2004a)<sup>1</sup>. In England also (although not in the other constituent parts of the United Kingdom), levels of population density and urbanisation differ significantly in relation to the European norm, so that the classically assumed general equation between rurality and disadvantage is not valid. There are certainly some specific and intractable pockets of poverty and the socially mixed character of communities, but these are hard to identify (Cloke *et al.*, 1994). In the United Kingdom, responsibility for rural policy and rural development has been complicated by the process of political devolution to constituent countries. The Westminster Government, represented by Defra (and previously one of its predecessors, the Ministry of Agriculture, Fisheries and Food), has overall responsibility on a European and international level, but in territorial terms covers only England. Elsewhere, the devolved administrations carry out the policy function and there is an increasing involvement at the regional level (Ward *et al.*, 2003).

Further impediment to evaluation is caused by confusion over terminology. Since the Agenda 2000 reforms, most of the European Union's non-commodity European Agricultural Guarantee and Guidance Fund (EAGGF) spending has been consolidated into programmes delivered under the Rural Development Regulation (RDR). cursory examination reveals that the accompanying measures of MacSharry's Common Agricultural Policy (CAP) reform, consolidated into the “Second Pillar”, are narrowly focused on farming and its environmental impact. Bryden (2000) has shown that less than 10% of planned expenditures under the 2000-06 RDR programmes were on “Article 33” measures focused on activities outside the agricultural sector, and consequently a negligible fraction of overall EAGGF payments. While there are some evident indirect linkages between agriculture and the non-farm rural economy, it is difficult to disentangle the various strands of EAGGF support, other Structural Funds activity, experimental LEADER funding and national programmes for rural action when attempting to link outcomes to activities. There is little evidence of radical change under the current Rural Development Regulation (Dwyer *et al.*, 2007). These are the challenges which the paper sets out to explore. The United Kingdom experienced a relatively early period of industrialisation and urbanisation in the 19<sup>th</sup> century compared with other European countries and a consequent transformation of rural economies. More recently, in the 20<sup>th</sup> century, there has been a period of significant counter-urbanisation (Robert & Randolph, 1983; Champion, 1994) when populations have increased even in relatively remote rural areas. We set out a series of four models of rural development that seek to chart the changes in the predominant approaches to rural development over time. While they differ in their focus and spatial coverage, we argue that they represent dominant characterisations and policy

approaches at particular points in time, and imply different types of analysis and scales of policy implementation. The models are influenced by changing economic and social conditions in rural areas, the ways in which these conditions have been conceptualised into rural development theories, the political influence of different interest groups, and the policy approaches that have been implemented in practice. There is no clear linear causality amongst these factors; rather we see interactions amongst them in a simultaneous process of development. In practice, this has been an evolutionary process, more a continuum than a set of discrete changes. However, we argue that these four models do capture the characteristics of this more gradual change.

The paper relates these changing and developing contexts of rural development based on the experience within the United Kingdom to the implications for policy evaluation, using specific examples that show how the development of guidelines by both the United Kingdom Government (HM Treasury, 2003) and the European Commission (CEC, 1999) have contributed to making this a mechanical, path-dependent activity. It concludes by suggesting that although measurement of impacts on rural economies, environments and communities is a necessary component of overall evaluations, without more discursive and qualitative inquiry, it is not, alone, sufficient. This in turn has implications for the ways in which rural development decisions are made in practice. Given the relatively early experience of these trends within the United Kingdom following an early industrialisation and rural transformation (Grigg, 1982), there may be implications for the ways in which rural development is practised in other European countries as their rural areas pass through similar stages of development.

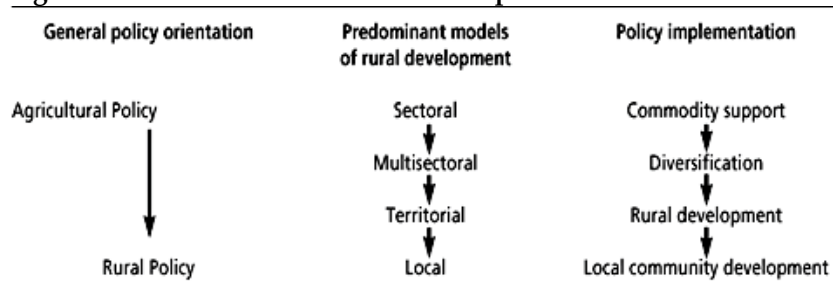
### **The Transformation of Rural Development**

There has been considerable recent discussion of the changes that are taking place in rural development both in terms of the nature of the changes underway within rural economies and in terms of the approaches adopted towards rural policy. The predominant characterisation is of a single change, commonly from an approach focussed fundamentally on the agricultural sector towards one focussed on rural territories and more diversified economic activity (Van der Ploeg *et al.*, 2000; Léon, 2005; OECD, 2006). However, we argue that there has been a steadier process of economic and social change in rural areas over a longer period of time.

The *figure 1* sets out the basic arguments, illustrating the four predominant models of rural development. The immediate post-war model centred on the agricultural sector. Increasing food production was a first priority and other objectives, such as enhancing rural employment and services, were seen as following directly from the production support given to the agricultural sector. But through time the approach has changed,

shifting to multisectoral, territorial and local approaches. The multisectoral policy recognises the limits to agricultural production support and sees agriculture as one of several economic sectors through which the development objectives can be attained. The focus may still be on farming, but there is encouragement for agricultural diversification. The territorial approach recognises the wider interactions within the rural economy and the importance of social and environmental as well as economic issues. Finally, the differentiation between rural areas and the variation in individual circumstances within areas promotes a search for actions that recognise the specificity of solutions at most local levels. These changes have reflected both forces fundamentally associated with national economic change and other factors more governed by local circumstances. And they have major implications for the methodologies that are relevant for the analysis of rural problems and the evaluation

**Figure 1. The Evolution of Rural Development Policies**



Source: The authors

### A Sectoral Approach

In the period following the Second World War there were overwhelming priorities that dictated the approaches taken to agricultural policy. These were driven by a need to ensure domestic food security and the central role of agriculture in rural economies as reflected, for instance, in the analysis and conclusions of the Scott Report (Committee on Land Utilization in Rural Areas, 1942). This placed support for the agricultural sector at the centre and promised a means of meeting a variety of objectives for food security, rural development, farm incomes and environmental protection simultaneously through a single agricultural policy approach. In this model, agriculture represents the major sector in the rural economy and its success determines the performance of the local economy more generally. Agricultural decline promotes rural depopulation and a decline in rural service provision. Thus, a policy to stimulate agricultural production not only supports domestic food supply, agricultural employment and farm incomes, it also deters out-migration from rural areas and supports the rural economy and service provision more generally. However, in the mid-20<sup>th</sup> century, a variety of, by now familiar, factors undermined this approach and the general consensus about the appropriate policies. The high

costs, inefficiency and environmental impacts of commodity price supports, especially in the context of surpluses of agricultural products undermined the approach taken to agricultural protection (Buckwell *et al.*, 1982). The changing nature of technology applied in agriculture with increasing mechanisation and application of inputs imported from beyond the local economy reduced the local economic impact of agriculture. The combined decline in the significance of the agricultural sector and the widespread experience of counter-urbanisation has meant that agriculture plays an increasingly less important role in the rural economy. In the United Kingdom for instance in 2006, agriculture was estimated to contribute some 0,5% of total value added at basic prices (Defra, 2007). But there is substantial regional variation; agriculture's shares in the English regions, varying in 2004 between 0,02% for London, and 0,6% for the South East, to 1,3% in the East Midlands and 1,7% in the South West.

### **A Multisectoral Approach**

Thus, support directed exclusively through the agricultural sector faced increasing exchequer costs in terms of dealing with the agricultural surpluses that can result from increased production and with the declining relative importance of agriculture within rural areas which can have less and less local economic impact more generally. This suggests an alternative, multisectoral approach. The relatively small contribution of agriculture to many rural areas means inevitably that other economic sectors have come to play an increasing role in the rural economy. Recreation and tourism and more generally the service and industrial sectors have become dominant. With a continuing policy focus on supporting farm incomes, policy thus began to seek other approaches and in the later 1980s farm "diversification" became the "buzzword in policy circles" (Newby, 1988). Farmers were encouraged to look for alternative sources of income by adding value to agricultural products, by making use of farm assets, especially land and buildings for non-agricultural uses, by undertaking agricultural work on other farms and by becoming involved in non-agricultural economic activities off the farm. The emphasis on the diversification of the farm business subsequently broadened to a wider analysis of farm households and the potential for pluriactivity, drawing on multiple household income sources, as a strategy for long term farm household survival (Shucksmith, *et al.*, 1989). This challenged the conventional view in the United Kingdom, in contrast to other European perspectives, that small farms represented only a temporary phase in the process of agricultural adjustment towards an agricultural sector based on full-time "efficient" farm businesses. Following this logic, it might be argued that the conventional view of agriculture as supporting the rural economy has come to be reversed to a situation where it is a successful local economy that offers the means of support for pluriactive farm households. While it was recognised that pluriactivity was not a new phenomenon, it gained an increased policy relevance. However, as noted by Gasson (1988) at the time, the goals of rural development might be pursued

more effectively by encouraging employment completely unrelated to agriculture.

### **A Territorial Approach**

10However, even so, such an approach is only partially “multisectoral”. A truly multisectoral approach to rural development policy would look more generally and equally at the actual and potential roles for other sectors in rural areas. While located in rural areas, these will often have no economic linkages at all with agriculture. The focus thus shifts towards a more general analysis of conditions within particular types of area, or a territorial approach. And in practice, this means a focus on rural areas. Rural areas can offer attractive locations for the establishment of new economic activity, often associated with the most advanced sectors of a modern economy, such as in information technology, and many areas have gained employment from the establishment of new firms and types of employment (Keeble & Tyler, 1995; North, 1998). This reflects the generally declining significance of transport costs in industrial production, the attractiveness of living in rural areas and the congestion costs of urban locations. These socio-economic changes in rural areas have been associated with the breakdown of longstanding networks and linkages, such as associated with the supply of agricultural inputs and the marketing of agricultural products. In a context of relative agricultural decline, the significance and penetration of agricultural norms is diminished within the wider community and this has not been replaced by any alternative single dominant perspective. In practice, we can recognise rural areas in a variety of different circumstances and facing quite different types of problem. But given the variety of circumstances found in rural areas, we may then suggest that most generalisations about the character of “rural” areas will be wrong (Hodge & Monk, *op. cit.*). Rural areas in the United Kingdom generally have performed relatively well in economic terms (Lowe & Ward, 2007) but particular areas continue to suffer from problems of low wages and underemployment. In areas with low activity rates and high unemployment, it may not matter very much what sort of economic stimulus is introduced. Any sort of new activity can have multiplier effects that work through to other sectors and may in turn promote new opportunities for farm diversification, thus supporting the farm population. In fact, it will often be easier to create employment opportunities through the development of non-land based activities, either by encouraging the movement of new economic activity into the area or through endogenous growth. The latter may be seen as more sustainable, although the former may be a more feasible alternative in areas where the economy is especially undeveloped.

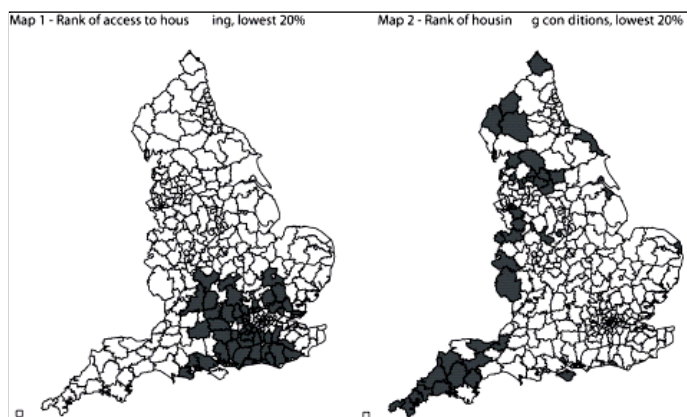
In other areas, economic change is characterised by a rather different pattern of development, which we can term the “contemporary” model of rural change (Hodge, 1997); in contrast to the traditional model that is driven by changes within the agricultural sector. This recognises that a proportion of rural areas have a significant

comparative advantage leading to economic success and population growth or counter-urbanisation. This embraces a variety of different processes of varying importance across different localities. A major driving force behind it is the fact that rural areas offer attractive environments in which to live and work, while higher incomes and improved transport infrastructure reduce the constraints on locational choices. Thus, those working in towns can travel longer distances to work, increasing the level of commuting. But the effect is more widespread than this; even relatively remote locations have experienced population growth. Earlier retirement has freed up older people to live in attractive locations away from a place of work. The increased congestion in urban areas and improved road and rail networks outside them have altered the relative accessibility of different types of locality; the less remote rural areas are generally more accessible than central urban locations that suffer from traffic congestion. Rural areas are also attractive to new forms of employment, often based on entrepreneurs choosing to establish new businesses in places where they want to live. Finally, there is anecdotal evidence of “downshifting”, people deciding to opt out of more stressful employment to take up a less pressured lifestyle, often in a rural location. These have different impacts on different groups of the population. For instance, those living in rural areas tend to have higher income levels than those in urban areas, while those working there often have lower levels.

Thus rural areas often follow divergent paths, some in long term decline and others experiencing considerable prosperity. Some continue to be characterised by the 'traditional' rural problems. Even if their populations are not significantly declining, they can often have low incomes and activity rates, although those on the lowest incomes are not necessarily engaged in the agricultural sector. Others with relatively high average incomes experience quite different sorts of problems. While the majority of the population is often generally well off and can get good access to services, there is a minority which experiences problems that are in many ways a consequence of the affluence of the majority, the fact that house prices are high or that, because the majority do not demand certain services such as public transport, they are not provided at all.

This divergence of experience across rural areas is seen in various ways. The higher numbers of people in some areas disguise the incidence of problems. Defra (2006) has recently highlighted the distribution of employees who are paid less than two-thirds of the English median wage. Concentration on the proportion of employees who are low paid highlights the more remote rural areas, but the absolute numbers of low paid employees are often higher in the less remote rural areas. Different conditions in rural areas can also be associated with different types of problems. We can, for example, identify two different sorts of problem associated with housing: poor housing conditions as represented by overcrowding or lack of facilities, or problems of access

to housing as represented by a high level of housing costs relative to local incomes (Midgley *et al.*, 2003). The different distributions of these indicators are shown in *figure 2*. Relatively high levels of both indicators of disadvantage are found in rural areas. But problems of housing affordability tend to be concentrated in the more affluent south-eastern part of the country around London, while problems of housing conditions tend to be concentrated in the more remote rural areas. Thus, they might both be seen as “rural” problems, but relating to very different types of rural areas.



Agrandir Original (png, 49k)  
 Source: Hodge and Monk (2004)

These issues suggest some limits to a general territorial approach, especially one that distinguishes simply between urban and rural areas. Changes in the circumstances in rural areas indicate a higher degree of complexity. There is no single sector that can be seen as a source of employment growth across rural areas in general. Rather, specific opportunities will depend on local characteristics, especially the natural environment, such as landscape, topography or an attractive coastline. It may also depend on the presence of employment clusters in nearby urban areas. Other relationships also seem less straightforward. While it may have been assumed that the maintenance of population numbers will provide for the maintenance in the provision of local services, this no longer holds (Stockdale, 2004). Under the 'traditional' model of rural decline, the level of service provision falls with the reduced demand associated with a declining population and the emphasis in debate has generally been on the decline in services provided in rural areas. But in practice many other factors are associated with the level of service provision relating to both supply and demand. Economies of size and centralisation in the supply of services, increased personal mobility, privatisation of service providers and altered patterns of demand have also led to major changes in the way in which services are delivered. The position is also complex when looked at

from the perspective of particular individuals. An analysis of labour markets tends to assume that the presence of unemployment is a consequence of a lack of employment opportunities within the local labour market, with the obvious policy implication that the solution will lie in employment creation. However, there is a variety of factors that can prevent individual access to employment beyond a crude lack of vacant jobs (Hodge *et al.*, 2002). These can include lack of transport, lack of childcare facilities or a mismatch between the types of jobs available and the skills of those without work.

### **A Local Approach**

A response to these sorts of factors may be to adopt a “local” or even an “individual” approach. In principle, resources need to be directed towards particular problems at the individual household or business level. This is clearly an impossible task for a central or federal government and indicates the requirement for decentralisation of decision-making. But it may still not be feasible for a regional government and may demand an even more localised approach. What is required is some mechanism for connecting the objectives and resources that are given for development policy at the national level to the problems and priorities that apply at the individual level. This is essentially a problem of information. The complexity of the problems and the diminution of traditional agricultural relationships have increased the attention given to the role of social capital and networks in the delivery of rural development (Lee *et al.*, 2005). There needs to be a system whereby local circumstances can be assessed against national priorities and information disseminated to individual households and businesses on the opportunities and resources that can be made available in support of the objectives. This will not occur at a single step and the ease with which it occurs at all will depend on local institutions and the level of social capital. A sectoral approach required little institutional development at the sub-national level. However, the move towards a territorial, and especially to a local approach, involves a much greater degree of choice and discretion in the ways in which public resources might be applied. This complexity makes far greater demands on information and local institutional developments are required in order to handle it. Experience with rural development schemes to date suggests that they can be successful in the development of institutions and social capital, especially as embodied in the organisations that have been developed in order to facilitate the implementation of the schemes. Valuable initiatives have been made towards the development of local institutional structures through such schemes as Objective 5b and LEADER albeit in a sporadic and piecemeal way (Ward and McNicholas, 1998; Ray, 2000). But such initiatives are very small relative to the total volume of support for rural areas that continues to be put into rural areas through the Common Agricultural Policy. Local institutions have an important role in dealing with the increasing complexity of policy implementation by building social capital for dissemination of information, networking amongst participants and co-ordination of activities.



A variety of institutional arrangements and networks at the local level are involved, such as in public sector facilitation, by organisations such as local authorities or National Parks, development, housing and service provision associations, collective supply associations for environmental goods, local dedicated environmental funds, or conservation trusts. Some of these are purely in the public sector, such as local government facilitation. Others are essentially private, non-profit organisations, but generally substantially supported through government funding. Some develop horizontal associations, such as land management co-operatives, while others develop vertical associations, such as facilitation for the implementation of policy. More attention is needed on the optimal form and level of administrative intervention in the delivery of rural development policies. This sort of activity falls between the conventional roles of the public and private sectors, presenting a challenge to analysis that casts the two sectors in clearly separate roles. It introduces investment in and maintenance of social capital as legitimate elements of a rural development policy.

#### **Policy Indicators and Analysis**

These changes in the nature and pattern of rural development have profound implications for rural analysis and policy evaluation. In the positivist tradition (Weimer, 1998) policy evaluation is undertaken to test the efficiency and effectiveness of specific public actions designed to achieve social welfare benefits. For evaluation to work, therefore, policy objectives need to be unambiguously stated, and causal mechanisms need to be clearly understood. The latter is particularly important since other events or processes rather than the policy itself may affect the outcome. Increasingly, therefore, and especially in the study of rural development, there has been a search for validating measures, or indicators, which can discriminate whether policy action has been justified. Such indicators should, according to the European Commission (CEC, 2001), cover efficiency (economic output in terms of quality and quantity, competitiveness and viability, and institutional efficiency) and equity (viability of rural communities and the maintenance of a balanced pattern of development, access to resources, services and opportunities, and labour conditions). Further, to appreciate the range of comprehension of different parts of the system and the stages at which policies impact, different kinds of indicators are required. Process indicators focus on policy implementation; output indicators provide quantitative measurements of effects identified as resulting from the policy; outcome indicators assess the extent to which policies achieve their stated objectives (Moxey *et al.*, 1998).

Clearly, public resources for development assistance must be targeted on defined priorities. But two types of problems are often encountered in the targeting of rural development areas (Midgley *et al.*, *op. cit.*) The first results from an 'urban' characterisation of local economic problems. While the approach has now changed, in the United Kingdom deprivation has in the past been assessed against indicators

measuring children in flats, Commonwealth immigrants or overcrowded housing. None of these is representative of rural problems. No account was taken of the availability of local services, often a particular rural concern. Even an indicator of registered unemployment might be argued to be biased against rural priorities. In a large labour market, those who are unemployed can expect that regular job search will lead to the identification of a suitable employment opportunity. In contrast, in a small labour market people who are unemployed may well know that suitable vacancies are unlikely to occur and so decide to move to another area rather than remain unemployed within the local area. This suggests that recorded unemployment might be lower because of out-migration. Further, it may be that the costs of registering as unemployed are higher in a rural area because of the distance to be travelled to the employment office and the potential benefits lower as information might be more readily available by other, personal means. Thus, we might expect that a rural area with a given level of economic disadvantage would exhibit a lower level of registered unemployment. This sort of argument might be generalised in that it is possible that the take up of social security benefits is on the whole lower in rural areas than it is in urban areas. This might reflect either the cost of registering to claim the benefit where it requires personal attendance in a local town, or else where social norms may give greater priority to independence and greater social stigma to claiming benefits from the state.

A second type of problem relates to the way in which data are generally collected and analysed in compiling indicators of local economic conditions (Fieldhouse & Tye, 1996). Thus, the smallest statistical unit within the Population Census is the enumeration district, the area covered by a single enumerator. These districts are then aggregated into larger statistical units on which the analysis is conducted. In urban areas, groups of people with similar socio-economic characteristics tend to live in certain localities. These are often large enough to be identified as separate statistical units. However, within rural areas with smaller settlements, the unit will often include the whole settlement and so households with lower income will tend to be included together with those on higher incomes. Thus, the mean figure for the rural unit may well fail to reveal the presence of a low income population. The selection of indicators and the methods that are used to analyse and evaluate rural development policy are clearly associated with the underlying model of the rural development process and its objectives. *Table 1* suggests the different indicators and methods that may be associated with the different rural development models. They also have different implications for the sort of information collected and the potential policy inferences.

The sectoral model concentrates on farm businesses and the means of raising farm incomes through agricultural production. Even where the emphasis has shifted from increasing production, there is clearly potential for development by investing to

reduce costs and rationalise farm production structures. The methods of analysis draw particularly on farm management but the approach clearly misses both the non-agricultural potentials for agricultural businesses and households as well as the conditions and opportunities in other sectors. The multisectoral approach recognises this wider economic environment and looks more generally at indicators of the state of the economy as a whole and the interrelationships between sectors. However, in practice the focus tended to remain on farm business and households. Development is still interpreted largely in terms of employment and so policy evaluation concentrates on the costs of creating new employment opportunities. This may suggest initiatives to attract new firms into the area or to stimulate employment creation from the development of endogenous resources. The territorial model recognises the wider set of social and environmental determinants of human welfare beyond employment and service provision. This suggests a cost-benefit approach that seeks to bring market and non-market values together into a single accounting framework. The approach remains quantitative and concentrates on quantifiable impacts and changes. The local model gives greater attention to the “softer” attributes of development. It seeks to recognise the variations in experiences amongst households and businesses within a particular local area and the significance of social and institutional capital in facilitating collective and community development. This indicates the introduction of qualitative research techniques, case studies or discourse analysis, and more deliberative approaches towards decision making. These different models and methods have direct implications for the sorts of information that may be available for policy decisions and hence for decision-making processes (*table 1*).

**Table 1. Indicators and methods in different development contexts**

	<b>Indicators</b>	<b>Indicative methods</b>	<b>Implications</b>
Sectoral	Farm incomes Agricultural population	Farm models Enterprise and commodity studies	Narrow focus misses significant determinants of rural welfare
Multisectoral	Farm household income employment and unemployment local value added employment incomes	Household surveys Input-output analysis Cost per job created	May still be limited to agriculture sector misses social and environmental issues
Territorial	Population change proportion of population in disadvantage average incomes levels of service provision	Cost-benefit analysis	Misses variations in incomes and welfare amongst population and specific local circumstances
Local	Social indicators numbers of people in particular circumstances individual experiences	Case studies Qualitative analysis Deliberative methods	Capacity to consider full range of experiences but problems with quantification and aggregation High transactions costs

### **Approaches in the United Kingdom**

Despite the contextual differences between the constituent parts of the United Kingdom, the articulation of policy and the framework of evaluation are relatively similar (perhaps because all four administrations share a common civil service, and the cultural imprint of is strong). Thus, for example, in England prior to the outbreak of foot-and-mouth disease, there was a strategic review of the nature and role of rural economies (PIU, 1999), followed by a statement of rural policy published by the two responsible Westminster Ministries (DETR/MAFF, 2000). This established the scope of rural policy, which covers fair access to rural service provision, including housing and transport; business performance in both the farm and non-farm sectors; rural conservation and leisure uses of the countryside; and the vitality of communities and rural civil society. Attached to these four priorities are a series of 15 indicators. For economic development, for example, performance of policy initiatives has been measured from employment activity rates and unemployment rates in rural areas, the proportions of market towns that are thriving, stable or declining (based on service provision, business activity and employment), new business startups and turnover of businesses in rural areas, total income from farming and off farm income, and levels of agricultural employment<sup>5</sup>. This suggests a dominance of the multisectoral model in policy-thinking.

The consequences of the foot-and-mouth outbreak caused something of a paradigm shift (Scott *et al.*, 2004), initially in terms of perception of the relative importance of constituent parts of rural economic activity, but perhaps more fundamentally a recognition that the administrative framework of policy delivery and evidence base was poorly suited to delivery of the policy objectives. In addition to a streamlining and reorganization of rural policy mechanisms, the new Rural Strategy (Defra, 2004b) provides a more detailed and comprehensive approach to policy evaluation, so that much of the introductory discussion of this paper is reflected in its definition: "Evaluation is the process which objectively judges the actual outcomes, including any unintended side effects, of a policy or group of policies against the policy objectives, or intended outcomes, and the resources that are used in policy delivery".

The planned evaluation framework consists of several streams: improving statistical resources to establish a baseline for monitoring; using this to assess progress using the Rural White Paper indicators, and also the rural "Public Service Agreement" targets set for Defra by the Treasury<sup>6</sup>; rural-proofing the programme-based evaluation other Westminster ministries' policies; a study of local rural services; and either a longitudinal study of rural households or case studies of a number of rural communities, to examine cross-cutting impacts of policies. When examining these policies themselves, however, there are some challenging complexities. The focus on economic and social regeneration is divided into two, sustaining the relative

prosperity of the majority of rural territory, and more specific measures to address rural areas with economic and social disadvantage. Most of these consist of rural top-up funding for existing economic development policies (skills, business support, broadband technologies) delivered through other Ministries or their agencies, and some minor regulatory modification of the land use planning system. Improvement of the economic and environmental performance of farming and food production is argued to be directly relevant to economic regeneration, although the contribution it can actually make may be small<sup>7</sup>. The new paradigm may be seen as mixing the territorial and local models, with the more general territorial approach applying across rural areas, but recognising the potential for local variations in experiences and the role of case studies and some degree of decentralisation in decision-making. But it may be argued that the approach towards evaluation has not followed through the implications of the changes taking place, and there are inherent weaknesses in tracing the chain of causality from actions to impacts (Baslé, 2006).

#### **The Status of Analysis, Evaluation and Decision-making**

What may seem to be lacking from this approach is a revised conceptual framework that fully recognises the changed and differentiated circumstances of rural localities. In the context of a single dominant sector, support for this sector may well have trickled down to the population more generally, although even here there may be doubts as to the extent to which such support ever did get to those who were most in need. Contemporary rural change involves more complex interactions and interdependences in highly diverse contexts, so that as Saraceno (1999) argues, policies should “make different assumptions about factors influencing economic development and cannot be evaluated with the same tools that have been developed for homogeneous, single administration, top-down policies.” Statistical generalisation based on replicated observation of a large number of cases is unhelpful since it has to assume things to be equal, whereas in most cases they are not. Much more importance needs to attach to identifying the specifics and spatial distributions of problems and their causes; but also, it is necessary to reveal the causal processes that have the potential to resolve the problems. As has been indicated, this may well require novel developments in the civil society of rural areas, but we have little systematic information on the roles and impacts of networks and associations in improving social and economic conditions. And we know less about how they may be successfully established and sustained. Analysis crosses the boundaries between economics and sociology. Quantitative information is required on economic activities, but a necessary complement is required in qualitative analysis of the influence of networks, trusts or social norms.

In principle, a case study approach offers scope for development of an appropriate evaluative strategy for rural policy. Rigorous in depth study of carefully selected local

areas, using a mixture of quantitative and qualitative data, can develop a sense of the interaction between increasingly diverse mixes of measures in contrasting rural contexts where different factors influence their expression and impacts, and contribute to understanding of how and why they operate in the way they do. This centre of interest of multiple case studies, described as a “quintain” by Stake (2006) is of a “contemporary phenomenon in a real-life context, especially when the boundaries between the phenomenon and context are not clearly evident” (Yin, 1994)<sup>9</sup>. Therefore, much of the preceding discussion can be related to Yin's strategic recommendations for case study design and implementation. These begin with selection and exploration of the objects of study, on the basis of general suppositions about the impact of policy which require testing. Multiple evidence sources should be scrutinized to test rival hypotheses, which might provide alternative explanations. Common protocols to investigate different expressions of the phenomenon impart additional robustness. Analysis requires assessment of different patterns in the multiple data sources to refine and rule out competing hypotheses, both within individual case studies and between case studies carried out in different contexts (Coffey & Atkinson, 1996). The increased complexity and differentiation of rural development also has implications for the ways in which policy decisions may be made. Local diversity implies that decisions must vary at the local level, but an appropriate multi-level governance system for the administration of rural development undermines the traditional understanding of effective sovereign governments delivering policies and assessing their impacts. Differences exist in the operation of the networks of interests which have arisen to bridge the lack of coordination and consistency, overlapping with formal government structures and including specialist (and highly effective) interest groups, and informal frameworks embodied in conventions, each able to inhibit or facilitate the actions of others (Morrison, 2006). The incidence of these, their effectiveness in addressing disadvantage, their impacts, and efficiency in deploying limited resources and expertise are all poorly understood and require investigation. There is a risk that, rather than opening up opportunities to those who are excluded in present circumstances, they reinforce the influence of particular interests (see for instance Yarwood's, (2002) analysis of the operation of the rural exceptions policy and Shortall (2004)). Case study methods can contribute to understanding of what is analogous to diverse ecosystems of intersecting associations and organisations, businesses, infrastructures, and environmental systems (Edwards, 2004). Extending this metaphor, interaction, duplication, and synergy of rural civil society, and niche creation and occupation, are additional conceptual tools for analysis and investigation.

### **Conclusion**

In practice, though, significant barriers impede the development and application of such methods for improving understanding of the evolution, structure, and function

of rural economies for refinement of policy design. Because case-studies require examination of a great many variables, in detail, in a small number of cases, they are relatively expensive, and skilled evaluators are scarce. There is a risk of becoming overwhelmed by detail in mixed method evaluations conducted at local level, due to their discursive nature. It is difficult to elaborate local level evaluation that fully reflects the complexity and diversity of rural areas, and at the same time convey the critical information back up to higher levels to permit balanced and informed decisions to be taken about resource allocation. Generalisation from case studies, especially from cross-case comparison where each individual study has been carried out in a consistent manner, is possible, but involves a different logic to conventional induction. In economic analysis, acceptance and consequent adoption of case study approaches is far from widespread (Bitsch, 2000) because they do not allow for the familiar statistical generalisations which come from large scale surveys. In contrast, theoretical generalisations deriving from identifying causal dependencies in one context contribute to better understanding of different mixes of influences in other rural areas. Our ability to make sense of different studies conducted in cases selected for varying purposes (of which an increasing number have now been completed: for example, Hart (2003); Lee *et al.* (2005); Midmore *et al.* (2004) is improving as a result of evolving prescriptions for rigorous meta-evaluation techniques (Cooksy & Caracelli, 2005).

Responding to these challenges will require a trade-off between qualitative evaluations to support decision-making at a more local level, closer to the level of policy implementation, and the need to pass some information on performance back up to higher levels in order to permit higher level resource allocation and financial control. Perhaps this is the fundamental challenge to combine local level evaluation that fully reflects the complexity and diversity of rural areas, and yet to convey the critical information back up to higher levels to permit balanced and informed decisions to be taken about resource allocation across different regions and even countries.

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## Chapter 2

# Reducing Poverty and Inequality in Rural areas: Key to Inclusive Development

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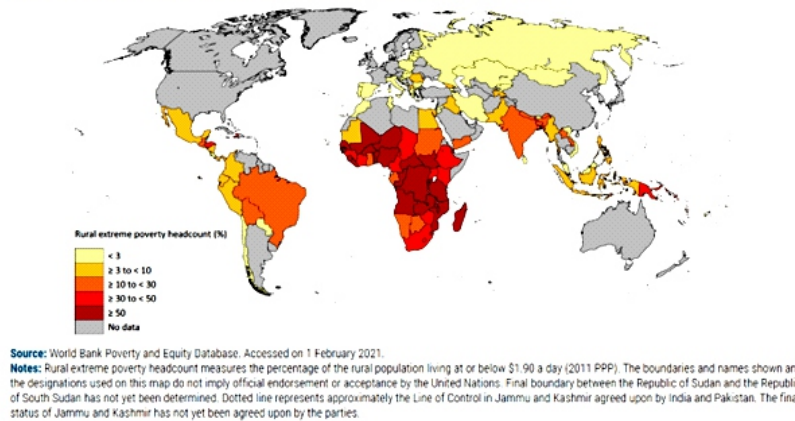
### Abstract

*Extreme poverty is mainly a rural phenomenon. Four of every five people below the \$1.90-a-day international income poverty line lived in rural areas in 2013 (Castañeda and others, 2018). Over the last decades, however, there has been tremendous progress in reducing rural poverty, partly as a result of successful policies promoting economic opportunities for the rural poor and expanding social protection in rural areas. This progress has not been equitable across the board. The same economic forces that reduce poverty, including rural development and urbanization, can increase inequalities. Moreover, poverty is now rising due to the COVID-19 crisis. All evidence points to increasing inequality as well. The pandemic and subsequent lockdown measures have affected urban areas disproportionately but have had a substantial impact on rural residents. Travel and transport restrictions disrupt the livelihoods of the rural poor, many of whom depend on mobility, seasonal and migrant work and remittances. In some countries, there has been a massive return of migrants to rural areas, largely due to job loss. This paper focuses on the linkages between poverty and inequality in rural areas. It illustrates that rural poverty and rural inequalities, although interlinked, follow different dynamics. It concludes by discussing policies that promote inclusive development in rural areas.*

**Keywords:** Reducing poverty, Inequality, Rural areas, Inclusive development



**Rural extreme poverty headcount at \$1.90-a-day at 2011 PPP, most recent year**



### Rural Development and Poverty Reduction

Poverty remains mainly a rural challenge: 80 per cent of people in poverty live in rural areas; many developing countries present a large size of rural population; 18 per cent of rural residents lived in extreme poverty in 2013, compared to around 5 per cent of urban residents (Castañeda and others, 2018). Much like national poverty rates, rural poverty rates are the highest in sub-Saharan Africa, where more than 50 per cent of the rural population live in extreme poverty in numerous countries (see map). The situation of the rural poor is made worse by inadequate access to public services, infrastructure and social protection. The COVID-19 pandemic has compounded their already vulnerable position by reducing incomes, limiting mobility and undermining food security. Despite persistent rural disadvantage, poverty is declining faster in rural than in urban areas. A study of 19 countries with data shows that the rate of rural poverty reduction has been higher than that of urban poverty reduction in all countries but one. However, reaching the very poorest remains challenging. Over the past 30 years, developing countries have made little progress in raising the level of consumption of the poorest, they have been left behind (Ravallion, 2016a).

### Rural Development and Inequalities

While the rate of poverty is higher in rural than in urban areas, income inequality is often lower in the former, since top incomes are mostly earned in cities. This is the case in 44 of the 56 countries for which rural and urban income inequality estimates (based on the Gini coefficient) are available. Despite differences in inequality levels, trends are qualitatively similar in urban and rural areas. The fact that inequality tends to move in the same direction in both rural and urban areas at least in countries with data is not surprising. At the national level, rural and urban areas share common

institutions and development patterns. Rural development is thus affected by national and regional contexts, particularly linkages between urban and rural areas. Aside from income inequality, there has been some reduction in rural-urban gaps in access to basic services and opportunities. On average, progress in secondary school attendance, the reduction of stunting and access to electricity has been somewhat faster in rural than in urban areas since the 1990s (United Nations, 2020). Nevertheless, even if the progress observed in these dimensions of well-being continues at the same pace, it will take more than four decades to close rural-urban gaps in these dimensions of opportunity (ibid.). That is, under a business-as-usual scenario, rural areas will still lag far behind urban areas by 2030. Within rural areas, inequalities in basic markers of opportunity such as child health and school attendance remain high and are persistent for specific groups. As shown in the United Nations World Social Reports 2020 and 2021, wealthier rural households with a well-educated head are almost as well off as the average urban household, while rural households in the bottom wealth quintiles with an uneducated head are far worse off. For indigenous peoples and ethnic minority groups, the available evidence suggests that wealth and opportunity gaps between them and the ethnic majority are greater in rural than in urban areas. The overlay of gender with rural residence confers additional disadvantages to rural women, who face more obstacles to accessing education than rural men or women in urban areas and have lower levels of ownership and control of assets (including land), less access to paid employment and lower access to public services.

### **Reducing Poverty and Inequality in Rural Areas as Complementary Goals**

Reductions in rural poverty have not always led to reductions in rural inequalities or in inequalities between rural and urban areas. The available data indicate that efforts to reduce rural poverty in the past did not always occur in tandem with efforts to reduce inequality. In China, India and Indonesia, for example, rural inequality increased or remained constant while rural poverty fell significantly between the 2000s and the 2010s. Regional and time trends suggest that declines in inequality are not a systematic outcome of growth and development. The same economic forces that drive falling poverty can cause a rise in inequality within rural areas and between urban and rural areas. Agricultural development, a key driver of rural poverty reduction, can exacerbate rural inequality if those who are better off reap greater benefits from agricultural growth. Differences in the ability to take advantage of growth can arise from disparities among population groups in their access to resources such as land, education and labour markets. Inequality trends may also vary depending on the sector and nature of economic growth. Urbanization and diversification away from agriculture in developing countries, for instance, can concentrate economic returns in urban areas and wealthier households. Persistent and growing inequality can be detrimental to growth and poverty reduction. In rural areas with high inequality, people in poverty – who are already disadvantaged in access to

resources – benefit less from subsequent growth, or even from periods of agricultural expansion. Left unaddressed, challenges faced by the rural poor in trying to escape poverty and fulfil their potential ultimately led to constraints on rural economic growth.

### **Inequalities and Rural Areas: Which Policies Matter?**

Most rural development strategies are designed to promote growth and reduce rural poverty. Few aim explicitly at reducing inequality (Ravallion, 2016b). Yet more equitable and inclusive rural development does not occur naturally or in isolation of wider national trends. It requires promoting access to quality education, health and other services as well as opportunities for decent work, especially for the rural poor. It also calls for building resilience to shocks, addressing the degradation of natural resources and reducing inequality of opportunity both within rural areas and between rural and urban areas. Inclusive rural development therefore requires both localized rural policies and action at the national level. The right mix of economic and social policies, both rural and national, can spur economic development while reducing poverty and inequality in rural areas. There are five broad policy lessons from countries that have succeeded in reducing both rural poverty and rural inequality.

1. Invest in infrastructure and public services. Sustained investments in roads, electrification, improved sanitation, safe drinking water, education, health care and the bridging of the digital divide in rural areas will be required to eradicate extreme poverty and to close rural-urban disparities. Such investments must also address inequalities in access to public infrastructure and services within rural areas to ensure that no area or group of people are left behind.
2. Promote inclusive agricultural development. Agricultural growth is estimated to be two to three times as effective in reducing poverty as growth in other sectors and benefits mainly the poorest in society (Christiaensen & Martin, 2018). The benefits of promoting inclusive agricultural development are both direct, through increased incomes and food security, and indirect, through increased investment in health and education.
3. Ensure a fair distribution of and secure access to land and its natural resources. As populations and economies grow, and climate change affects natural resources, constraints on available land and natural resources may arise. Policy choices will influence whether this increased competition for resources leads to innovation and inclusive development or to degradation, scarcity and inequalities of access and control over these resources. A fair distribution is essential, regardless of whether tenure is based on individual or collective rights. Moreover, it is vital to ensure rural women's equal access to land and natural resources and address discriminatory laws and practices that impede their rights in this regard.

4. Improve social protection coverage in rural areas. Social protection coverage in rural areas is generally lower than in urban areas. Few social protection programmes are explicitly tailored to rural populations or take into account their specific circumstances. There are legal, administrative and financial barriers that must be addressed in order to increase coverage of social protection in rural areas (ILO & FAO, 2021). To overcome these structural barriers, legal frameworks can be adjusted such as through modifying contributory schemes – to account for informal employment and other forms of employment common in rural areas; participation in contributory schemes can be improved through subsidies; and the hidden costs of participation in all forms of social protection can be lowered, for example by offering one-stop shop solutions, utilizing digital platforms and reducing administrative red tape.
5. End all forms of discrimination. Discrimination remains a persistent driver of inequality. Because of the systematic exclusion of ethnic minorities, indigenous peoples, women and other groups, the benefits of rural growth are likely to be unevenly distributed, unless swift action is taken to promote their inclusion, including by addressing prejudice and discrimination.

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## Chapter 3

### Rural Poverty in Developing Countries: Implications for Public Policy

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#### **Abstract**

*The causes of rural poverty are complex and multidimensional. They involve, among other things, culture, climate, gender, markets, and public policy. Likewise, the rural poor are quite diverse both in the problems they face and the possible solutions to these problems. This paper examines how rural poverty develops, what accounts for its persistence, and what specific measures can be taken to eliminate or reduce it.*

**Keywords:** Rural poverty, Developing countries, Public policy

#### **Rural Poverty in Developing Countries**

Broad economic stability, competitive markets, and public investment in physical and social infrastructure are widely recognized as important requirements for achieving sustained economic growth and a reduction in rural poverty. In addition, because the rural poor's links to the economy vary considerably, public policy should focus on issues such as their access to land and credit, education and health care, support services, and entitlements to food through well-designed public works programs and other transfer mechanisms. About one-fifth of the world's population is afflicted by poverty, these people live on less than \$1 a day. Poverty is not only a state of existence but also a process with many dimensions and complexities. Poverty can be persistent (chronic) or transient, but transient poverty, if acute, can trap succeeding generations. The poor adopt all kinds of strategies to mitigate and cope with their poverty.

To understand poverty, it is essential to examine the economic and social context, including institutions of the state, markets, communities, and households. Poverty differences cut across gender, ethnicity, age, location (rural versus urban), and income source. In households, children and women often suffer more than men. In the community, minority ethnic or religious groups suffer more than majority groups, and the rural poor more than the urban poor; among the rural poor, landless wage workers suffer more than small landowners or tenants. These differences among the poor reflect highly complex interactions of cultures, markets, and public policies. Rural poverty accounts for nearly 63 percent of poverty worldwide, reaching 90 percent in some countries like Bangladesh and between 65 and 90 percent in sub-Saharan Africa. (Exceptions to this pattern are several Latin American countries in which poverty is concentrated in urban areas.) In almost all countries, the conditions—in terms of personal consumption and access to education, health care, potable water and sanitation, housing, transport, and communications faced by the rural poor are far worse than those faced by the urban poor. Persistently high levels of rural poverty, with or without overall economic growth, have contributed to rapid population growth and migration to urban areas. In fact, much urban poverty is created by the rural poor's efforts to get out of poverty by moving to cities. Distorted government policies, such as penalizing the agriculture sector and neglecting rural (social and physical) infrastructure, have been major contributors to both rural and urban poverty.

The links between poverty, economic growth, and income distribution have been studied quite extensively in recent literature on economic development. Absolute poverty can be alleviated if at least two conditions are met:

1. Economic growth must occur or mean income must rise on a sustained basis; and
2. Economic growth must be neutral with respect to income distribution or reduce income inequality.

Generally, poverty cannot be reduced if economic growth does not occur. In fact, the persistent poverty of a substantial portion of the population can dampen the prospects for economic growth. Also, the initial distribution of income (and wealth) can greatly affect the prospects for growth and alleviation of mass poverty. Substantial evidence suggests that a highly unequal distribution of income is not conducive to either economic growth or poverty reduction. Experience has shown that if countries put in place incentive structures and complementary investments to ensure that better health and education lead to higher incomes, the poor will benefit doubly through increased current consumption and higher future incomes. The pattern and stability of economic growth also matter. On the one hand, traditional capital-intensive, import-substituting, and urban-biased growth induced by government policies on pricing,

trade, and public expenditure has generally not helped alleviate poverty. On the other hand, agricultural growth where there is a low concentration of land ownership and labor-intensive technologies are used has almost always helped reduce poverty. Finally, sharp drops in economic growth resulting from shocks and economic adjustments may increase the incidence of poverty. Even when growth resumes, the incidence of poverty may not improve if inequality has been worsened by the crisis.

### **The Rural Poor: Who Are They?**

The rural poor depend largely on agriculture, fishing, forestry, and related small-scale industries and services. To understand how poverty affects these individuals and households, and to delineate the policy options for poverty reduction, we first need to know who the rural poor are.

The rural poor are not a homogeneous group. One important way to classify the rural poor is according to their access to agricultural land: *cultivators* have access to land as small landowners and tenants, and *noncultivators* are landless, unskilled workers. There is, however, much functional overlap between these groups, reflecting the poverty-mitigating strategies of the poor in response to changes in the economy and society.

Cultivators, who form the bulk of the rural poor in developing countries, are directly engaged in producing and managing crops and livestock. Since these households cannot sustain themselves on the small parcels of land they own or cultivate, they provide labor to others for both farm and nonfarm activities inside and outside their villages. Some members of these households migrate to towns or cities on either a rotational or a long-term basis. In many countries, both small landowners and tenants are under increasing pressure to get out of the agriculture sector altogether. Underlying this process of "depeasantization" are market forces and policies affecting landholdings, rents, prices, credit, inputs, and public investment in social and physical infrastructure.

Noncultivators are perhaps the poorest among the rural poor. Their numbers have been rising rapidly because of the natural increase in population and depeasantization. These workers depend on seasonal demand for labor in agriculture and in rural informal, small-scale industries and services. The landless rural workers are vulnerable to fluctuations in the demand for labor, wage rates, and food prices. They find it even more difficult than small landowners and tenants to gain access to public infrastructure and services. In addition, unlike their counterparts in urban areas, they are often excluded from public sector safety nets (food rations, for example).

Rural women tend to suffer far more than rural men. Their poverty and low social status in most societies is a major contributor to chronic poverty. Substantial evidence from many countries shows that focusing on the needs and empowerment of women is one of the keys to human development.

### **What Do the Poor Own?**

To understand poverty creation in rural areas and its effects on different groups, we need to look at the assets that the poor own or to which they have access, and their links to the economy. The economic conditions faced by the rural poor are affected by a variety of assets (and the returns on them) held at the household, community, and supra-community levels. The poor's physical assets include natural capital (private and common property rights in land, pastures, forest, and water), machines and tools and structures, stocks of domestic animals and food, and financial capital (jewelry, insurance, savings, and access to credit).

Their human assets are the labor pools comprising workers of varying ages, genders, skills, and health in the households and communities. Their infrastructural assets are publicly and privately provided transport and communications, access to schools and health centers, storage, potable water, and sanitation. Their institutional assets include their legally protected rights and freedoms and the extent of their participation in decision making in households and communities, as well as at the supra-community level. The first two categories of assets are largely regulated through formal and informal networks among individuals and communities. Most rural people, particularly women and those in landless households, are greatly handicapped by inadequate assets and the low and volatile returns on them.

The differences among the rural poor are more clearly reflected in their links to the economy, which determine how they use their assets and participate in production. All of the rural poor are engaged in the production of both tradable and nontradable goods and services. Artisans and unskilled workers provide many nontradable services and some nontradable products (such as staple foods) that small cultivators also produce. Only cultivators, however, have access to small parcels of land through ownership or (sharecropping) tenancy. They are also the only groups of poor people who own or rent physical capital such as tools, implements, and machinery. Artisans and small-scale farmers have only limited amounts of physical capital. They have only limited access to financial capital and acquire it largely through informal agents or institutions, except for tenants, who can use their landlords as conduits to formal credit. Borrowed capital is often costly and is used to maintain consumption during hard times or to buy supplies and equipment needed for farming. Households' labor is used both within the family for work done by unpaid family members and to earn the wages paid to landless, unskilled workers in farm and nonfarm activities. All groups of the rural poor



are vulnerable to serious risk owing to changes in weather, health, markets, investment, and public policy. The resulting fluctuations in the prices and quantities of their assets and of what they produce can either deepen their poverty or give them opportunities to escape from it. The main reason is that the rural poor have a very low capacity to absorb abrupt financial shocks. In addition, economic crises and natural disasters can bring about sharp increases in poverty and make it more difficult for the poor to escape it.

### **How Rural Poverty is Created**

Numerous characteristics of a country's economy and society, as well as some external influences, create and perpetuate rural poverty:

1. Political instability and civil strife
2. Systemic discrimination on the basis of gender, race, ethnicity, religion, or caste
3. Ill-defined property rights or unfair enforcement of rights to agricultural land and other natural resources
4. High concentration of land ownership and asymmetrical tenancy arrangements
5. Corrupt politicians and rent-seeking public bureaucracies
6. Economic policies that discriminate against or exclude the rural poor from the development process and accentuate the effects of other poverty-creating processes
7. Large and rapidly growing families with high dependency ratios
8. Market imperfections owing to high concentration of land and other assets and distortionary public policies; and
9. External shocks owing to changes in the state of nature (for example, climatic changes) and conditions in the international economy

Biases in national economic and social policies can contribute to rural poverty by excluding the rural poor from the benefits of development and accentuating the effects of other poverty-creating processes. Policy biases that generally work against the rural poor include:

1. urban bias in public investment for infrastructure and provision of safety nets
2. implicit taxation of agricultural products through so-called support prices and an overvalued exchange rate
3. direct taxation of agricultural exports and import subsidies
4. subsidies for capital-intensive technologies
5. favoring export crops over food crops; and
6. bias in favor of large landowners and commercial producers with respect to rights of land ownership and tenancy, publicly provided extension services, and access to (subsidized) credit

These policies can have both short- and long-term effects on the rural poor. The effects are particularly significant in the context of the structural adjustment programs that many developing countries have undertaken to restore macroeconomic stability and expand the capacity of the economy to increase production, employment, and incomes.

### **Policies For Reducing Rural Poverty**

To design policies that have a chance of effectively helping the rural poor, the focus of policy should be on four major groups:

1. Small landowners who cultivate their land;
2. Landless tenants who cultivate other people's land;
3. Landless laborers who depend on casual or long-term employment in the farm or nonfarm sectors; and
4. Women, who could also be part of any of the three preceding groups.

All of these groups will benefit from good macroeconomic management which helps keep inflation in check and maintains unsubsidized prices because it facilitates sustained economic growth through private investment and competitive markets. Needless to say, unfair laws or poor enforcement of existing laws, exclusion of the poor from decision making, and pervasive corruption in the public sector are no less detrimental to the well-being of the poor than they are to the country's overall economic growth. Achieving agricultural growth by applying new technologies is one of the most important ways to reduce rural poverty. The impact of such efforts on the rural poor, however, depends on initial conditions, the structure of relevant institutions, and incentives. Research shows that agricultural stagnation has harmed the rural poor in sub-Saharan Africa by creating food shortages and higher prices that have reduced their ability to buy food and find work. Conversely, experience with the Green Revolution showed that rapid agricultural progress made a big difference in reducing rural poverty in parts of South Asia. Researchers have found that higher crop yields reduce both the number of rural poor and the severity of rural poverty. But these effects are strong only if certain conditions are met:

1. Land and capital markets are not distorted by a high concentration of ownership of natural resources (agricultural land), including unfair tenancy contracts, and repression in the capital markets (with restricted access to finance);
2. Public policy on pricing, taxes, and the exchange rate does not penalize agriculture and encourage or subsidize labor displacement;
3. Public investment in basic education and health care is high and used effectively; farmer literacy and good health have great influence on farm productivity;
4. Public sector support for agricultural research is strong and resulting

- improvements are made available to small farmers is effective;
5. Physical capital, like irrigation systems, access roads, is adequately maintained;
  6. Safety nets and social assistance are available for the very poor, particularly the landless (casual) workers and rural women, in the form of public works programs, microfinance, and food subsidies; and
  7. The rural poor are directly involved in the identification, design, and implementation of programs to ensure effective use of resources and equitable distribution of benefits.

Since the rural poor are a varied group, we need to understand how macroeconomic changes and policies can affect them. The three major ways in which policies affect the rural poor are through markets, infrastructure (including public services), and transfers. The markets in which the rural poor participate are those for products, inputs (labor and nonlabor), and finance (from formal and informal sources). Several important features of these markets can affect conditions in rural areas. The infrastructure that directly affects the rural sector's productivity and the rural poor's quality of life includes the economic (transport, communications, extension services, and irrigation) and the social (education, health care, water, and sanitation). Given that most elements of a country's infrastructure are provided through public funding, the level of spending, cost effectiveness, quality of service, and access of the rural poor to infrastructure and public services have important effects on human capital and productivity in rural areas. Transfers, which are both private and public, provide some insurance against anticipated and unanticipated economic shocks. Most of the rural poor depend on private transfers among households, extended families, and other kinship groups. Public transfers can take the form of redistribution of such assets as land, employment on public works projects, and targeted subsidies for inputs and some consumer products. These transfers supplement or displace private transfers, depending on the policy instrument and how it is used. But these channels, markets, infrastructure, and transfers do not work in the same way for all of the rural poor because each group has quite different links to the economy.

### **Key Policy Components Needed to Reduce Rural Poverty**

So, what are the key elements when crafting a policy to reduce rural poverty?

Competitive markets, macroeconomic stability, and public investment in the physical and social infrastructure are widely recognized as important requirements for sustained economic growth and reduced poverty. In addition, the first requirement of a strategy to reduce rural poverty is to provide the enabling environment and resources for those in the rural sector who are engaged in the agricultural production and distribution system.

Other policy components for national strategies involving the government, the private (for-profit) sector, and civil society to reduce rural poverty can include:

1. Information gathering. The rural poor face many different problems and are not a homogeneous group. Therefore, a sustained effort must be made to gather information about the particular problems they face so that they can be adequately addressed.
2. Focus on building assets. The government should assess what assets the poor need most to help them earn more. This could be agricultural land or other resources, access to credit, or improvements in health and education. Dependence on raw labor, without a focus on building other assets, is the single most important source of persistent poverty.
3. The right to adequate land and water. A broad-based land reform program including land titling, land redistribution, and fair and enforceable tenancy contracts is critical for reducing rural poverty. It can make small (marginal) landowners and tenants more efficient producers and raise their standards of living.
4. Basic health care and literacy. The rural poor need to build and strengthen their human capital so they can get out of poverty and contribute more to the economy and society. Basic health care (immunization, provision of clean water, and family planning) and education (literacy, schooling, and technical training) particularly for women and children are essential building blocks and should be accessible at reasonable cost.
5. Local involvement. The infrastructure and services associated with health and education can be funded and maintained best if the target groups are involved in making decisions about the design, implementation, monitoring, and accountability.
6. Providing infrastructure. The rural poor cannot make the best use of their resources, including human capital, if either the quantity or the quality of some of the key parts of the country's physical infrastructure (irrigation, transport, and communications) and support services (research and extension) is inadequate. The social and physical infrastructure and services can be funded and maintained best, that is, they will be cost-effective and of reasonable quality if the target groups are involved in designing, implementing, and monitoring them, as well as in ensuring accountability of the government officials responsible for them.
7. Targeted credit. Informal and formal sources of credit often are too costly for, or unavailable to, the rural poor. Targeted public sector rural credit programs, especially if they are subsidized, benefit the nonpoor far more than the poor. The poor want credit that is available on acceptable terms and when they need it. Recent experiments with community-based credit programs, in which the poor actively participate in the making of lending decisions that are subject to

peer accountability, have been successful in reaching target groups at reasonable cost.

8. Public works. A large and increasing proportion of the rural poor depends on wage labor, because they have either no asset other than raw labor or very few assets: limited quantities of land and domestic animals. A flexible public works program can greatly help the near landless and the landless smooth out household consumption and avoid transient poverty. If it is used on a sustained basis, it can also strengthen the bargaining power of the poor in rural areas.
9. Decentralized food programs. Some of the rural poor, both individuals and households, suffer from inadequate nutrition most of the time. They need different kinds of support, depending on their circumstances. These may include food supplement programs; food assistance provided through schools, health care clinics, and community centers; and cash transfers. Decentralized and targeted programs seem to work best.

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## Chapter 4

### Firm Attributes and Stock Returns of Listed Consumer Goods Companies in Nigeria

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#### Abstract

**A**s strategies for developing African rural economy, the study examined the effect of firm attributes on stock returns of quoted consumer goods companies in Nigeria. Specifically, the study sought to determine the combined effect of firm size, firm age and profitability on stock returns. This study adopted a descriptive ex- post facto research method for the purpose of addressing the research problem. The population of the study comprised all the twenty-three (23) listed consumer goods firms on the Nigerian Stock Exchange as at 2020. The study used purposive sampling technique to obtain a sample size of sixteen (16) firms listed in the consumer goods sector. This number is arrived at using the criteria that a company must have complete information for the number of years under consideration (2011-2020). The study employed secondary sources for the purpose of data collection. The data was collected from the annual reports of the sampled companies for a period of ten (10) years (2011 to 2020). The study used multiple regression analyses technique to analyse the data after all diagnostics tests were conducted. The result of the study using the pooled OLS regression revealed that firm size and firm age have negative insignificant effect on stock returns while profitability has positive significant effect on stock returns of quoted consumer goods companies in Nigeria. Based on the findings, the study concluded that the change in the composition of firm attributes affects the stock returns of companies in the consumer goods sector. From the findings and conclusion, the study recommended that the securities and exchange commission should continually subject the profit of consumer goods companies to stress quality test in order to insulate the investing public from a possible rip-off.

**Keywords:** Firm attributes, Stock returns, Consumer goods, Companies, Nigeria

### **Background to the Study**

In the current scenario where all critical decisions of firm management quickly reach the markets as well as information users, an important issue regarding financial research is the impact of these characteristics on returns of stocks. The value of a company can be determined in many different ways. There are also just as many different ways to determine the value of its stock. The most basic and easiest to understand way to measure this value, both the company and the stock, is to look at the company's market value (Akwe, Ayuba & Dang, 2018). This is also known as the company's market capitalization, or its market cap. Market capitalization is the value you get when you multiply all the outstanding shares of the company's stock by the current price of a single share. The stock exchange is an exceedingly fluid, dynamic and engaging entity. It facilitates thousands of transactions which occur simultaneously from traders striving to outbid and outsell each other. From the moment it opens there is unceasing activity until the second it closes (Nguyen & Nguyen, 2016). Decisions to buy, sell or hedge are based on analysis of sophisticated theoretical models or the instinct of a speculator. New information about company developments and stock recommendations are continuously made available while papers are released on new and different ways in which the market can be exploited.

Basically, good firm performance and prospects will be more attractive to investors (Paryanto & Sumarsoso, 2018). When investing, investors usually intend to obtain expected returns in the future (Acheampong, Aktas & Unal, 2014). In order to obtain the expected return, investors need to consider the investment decisions they take before investing, such as checking whether the invested capital can provide the expected return or by looking at the nature of what has happened, such as the realized return, which is important to measure and know the performance of a firm before invest (Eklund, Palmberg & Wilber, 2019). This study therefore, provides measurement of stock returns variation that is caused by firm attributes. For instance, firm attributes such as size, leverage, age and profitability can be used to predict the variations in stock returns. Firm size is one of the first empirically documented firm characteristics associated with realized stock returns (Nicholson & Kiel, 2007). This is because the size of the company matters, as in all country's dividends are paid by the biggest and most profitable firms (Denis & Osobov, 2008). Large firms use their assets to generate much income and such performance would send a good signal to the market. Also, this factor is related to profitability, as bigger and more profitable firms are more likely to guarantee higher returns (Consler & Lepak, 2016). Firm age is widely added as a determinant of stock returns (Custodio & Metzger, 2014; Lin & Chang, 2011), As firms grow older, they are characterized by lower rate of failure and low costs to obtain capital (Koh, Durand, Dai & Chang, 2015), and they have experience to negotiate favorable debt capital to increase returns. The reverse is true for young firms in the birth stage (Stepanyan, 2012).

Given that Nigeria as a developing market has diverse structure and institutional features from developed stock markets, and in view of the fact that investors are interested in getting more insights into the activities of consumer goods companies in the country because of the indispensability of their products in the Nigerian market it is imperative to find out whether stock returns in Nigeria respond differently to effects of firm level attributes. Hence, the broad objective of this study is to examine the effect of firm specific attributes on stock returns of quoted consumer goods companies in Nigeria. The specific objectives are to:

1. Ascertain the effect of firm size on stock returns of quoted consumer goods companies in Nigeria
2. Examine the effect of firm age on stock returns of quoted consumer goods companies in Nigeria
3. Assess the effect of profitability on stock returns of quoted consumer goods companies in Nigeria

The following hypotheses guided the study;

**H01:** Firm size has no significant effect on stock returns of quoted consumer goods companies in Nigeria

**H02:** Firm age has no significant effect on stock returns of quoted consumer goods companies in Nigeria

**H03:** profitability has no significant effect on stock returns of quoted consumer goods companies in Nigeria

## **Literature Review**

### **Firm Attributes**

Companies can be differentiated from each other based on certain characteristics they possess. Such characteristics are referred to as firm attribute which exist at the firm's level and have the potential to influence the decisions of the managers in the firm. Shehu and Farouk (2014) defined firm attributes as variables at the firm level that affect the decision of the firm both internally and externally over time. Such variables include size, leverage, growth, value, profitability, capital structure, and others. Those attributes of the firm are usually unique to a specific company and they usually portray certain perception in the mind of the user of information regarding the performance and future of the firm. Some of the attributes are discussed hereunder includes firm size, profitability, and firm age.

### **Firm Size**

Firm size is one of the first empirically documented firm characteristics associated with realized stock returns (Banz 1981; Reinganum 1981; Keim 1983). Fama and French (1992) consider the size effect the most prominent. Investors can see the level of company's stock return through the size of the company, because the larger the size of



the company, the greater the rate of stock return to investors. Large company indicates that the company has a lot of assets that can be used to provide return to investors. This is consistent with the studies conducted by Ernayani and Robiyanto (2016) and Sudarsono and Sudiyatno (2016) that firm size has an effect on stock return contradiction to the Capital Asset Pricing Model (CAPM). Furthermore, Small companies are basically riskier than big companies. Also, firm size is one of the most influential characteristics in organizational studies. Firm size has also been shown to be related to industry- sunk costs, concentration, vertical integration and overall industry profitability. Firm size is one of the most acknowledged determinants of stock return. It is commonly measured by either natural logarithm of assets, or sales or employees. Larger firms are associated with having more diversification capabilities, ability to exploit economies of scale and scope and also being highly formalized in terms of procedures. Shaheen and Malik (2012) described firm size as the quantity and array of production capability and potential a firm possesses or the quantity and diversity of services a firm can concurrently make available to its clients. Firm size plays a significant and crucial role in explaining the kind of relationships the firm has within and outside its operating environment. Babalola (2013) argued that, the larger a firm is, the more the influence it has on its stakeholders, and so large firms tend to outperform small firms.

### **Firm Age**

The length of time of existence of the company is the age of a company. According to Ofuan and Izien (2016), the time interval during which a being or thing has existed is the age. Shumway (2001) revealed that some are of the believe that listing age, should define the age of the company, however, he is of the view that firm's age should be defined as the number of years of incorporation of the company. Shumway (2001) argues that listing is a defining moment in a company's life; hence, age listing has become more economical. His argument is set straight from the viewpoint of the company as a legal personality. This is based on the belief that as a legal person, a company is born through incorporation (Gitzmann, 2008, Pickering, 2011). Again, firm age is widely added as a determinant of stock returns (Custódio & Metzger, 2014; Lin & Chang, 2011). Firm age is an important factor in determining stock returns. This is because as firms grow older, they are characterized by lower rate of failure and low costs to obtain capital (Koh, Durand, Dai & Chang, 2015), and they have experience to negotiate favorable debt capital to increase returns. The reverse is true for young firms in the birth stage (Stepanyan, 2012). The fact is as listed firms becomes older and closer to maturity stage in their firm life cycle, they acquire more business experience to make effective capital structure decisions and do utilize debt to increase returns. Firm age plays an important role in the firm's decisions to seek debt capital. Specifically, older companies use more debt in their capital structure to take advantage of the benefits of an interest tax shield to maximize shareholders' returns.

### **Profitability**

Profitability of the firm is another dimension of the firm's characteristics focused in this study. EPS (Earning per share) usually have significant positive influence on market return as shown in many past researches. This indicates that the higher the firm's EPS, the higher market adjusted return and abnormal return that can be resulted by firm's stock, because a higher EPS means higher profit obtained from every naira price earned by the firm. Investors/shareholders consider current earnings, future earnings, and earnings stability are important, thus they focus their analysis on firm's profitability. They concern about financial condition which will affect firm's ability to pay dividend and avoid bankruptcy. Also, profitability, which is frequently used as measure of financial performance, is one of the main objectives for the existence of many companies. Profit is an essential prerequisite for any company operating in today's increasingly competitive and globalized market. In addition, profit does not only serve as a means of attraction to investors; it also improves the level of solvency, and thus, strengthens consumers' confidence (Ismail, 2013). The concept of profitability is fundamental to both accounting and economic theories. Since it is an offshoot of income, it also has its foundation from the famous Hicks' concept of income. Using the Hicksian approach, profit can be explained as the maximum value which can be consumed at a given period of time without tempering with "well-offness" (Glautier, Underdown & Morris, 2011). This definition has been staunchly supported by economists. It provides a sound basis for appreciation of what actually constitutes income and hence, profit.

### **Stock Returns**

In simple terms a stock refers to a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. The percentages take that an investor's hold is reflected in the number of stocks the investor acquires from the company's stocks. Thus, the more shares that one acquires, the greater his/her ownership rights in the company. When one holds a company's stock, it means that person is one of the many owners (shareholders) of the company and as such has a claim (albeit usually very small) to everything the company owns. An investor's share ownership is represented by a stock certificate. That is a piece of paper which serves as a proof to one's ownership. According to Beni and Alexander (1999), ordinary stock simply represents an ownership interest in a corporation. In this modern age of business however, such certificates are rarely given the shareholder because the brokerage firms keep this record electronically otherwise known as holding shares in street name. This is done in an attempt to make the stock easily tradable. Unlike in the past where one has to physically take a share certificate to the broker age in order to sell, now with just a click on the mouse or even a phone call; stocks can easily be traded.

Return refers to the financial rewards gained as are suit of making an investment. The nature of the return depends on the form of the investment. For instance, accompany that invests in fixed assets and business operations expects returns in the form of profit, which may be measured on before-interest, before tax or after-tax basis, and in the form of increased cash flows. An investor who buys ordinary shares expects returns in the form of dividend payment and capital gains (share price increases). Again, an investor who buys corporate bonds expects regular returns in the form of interest payments (Frimpong, 2010).

Stock return is very important as it is the main objective of investment in ordinary shares. Investors, both existing and potential ones' regard return as the fundamental reason for investing in a particular firm. Stock return can be in form of capital appreciation/ depreciation (as obtained in the Nigerian stock exchange) plus dividend received if any. Stock prices are important metrics of measuring stock market returns. Therefore, the value attached to them matters a lot to both existing and prospective investors in the stock market. There are several factors in stock prices determination in the stock market. These factors range from accounting and non-accounting information. Stock Market Returns are the returns or gain that the investors generate out of the stock market (Lin & Zhan, 2011).

### **Empirical Review**

Nyikyaa (2021) examined the combined effects of firm size, price earnings ratio, firm age, and leverage on stock returns of quoted industrial companies in Nigeria from 2009-2018. Stock returns was measured by the amount of dividend paid in a year. The study adopted ex-post facto research design. The population comprised of nineteen (19) quoted industrial goods companies in Nigeria out of which fourteen (14) were selected for the purpose of data collection. The study used secondary data obtained from the audited accounts of the sampled firms while analysis of data was done using Ordinary Least Square (OLS). The result of the study showed that firm size and price earnings ratio have significant effect on stock returns, leverage have positive insignificant effect on stock returns while firm age have negative insignificant effect on stock returns of quoted industrial goods companies in Nigeria. Akwe, Garba and Dang (2018) examined the effects of firm level attributes on stock returns of top twenty-five most capitalized quoted equity firms in Nigeria. Specifically, the study investigated the effects of firm size, ratio of market to book value per share, and price to earnings ratio on stock returns of selected quoted firms in Nigeria from 2007 – 2016. The population comprised top twenty-five most capitalized quoted equity firms, out of which twenty-one companies represent the sample of the study. The study adopted ex-post facto research design. The study used secondary data obtained from the audited accounts of the sampled firms, Central Bank of Nigeria Statistical Bulletin and the Nigerian Stock Exchange database and website. Analysis of data was carried out

using panel data regression. The panel regression results indicate insignificant negative effect between firm size and stock returns in Nigeria. The study used selected equity firms in Nigeria while the current study used consumer goods companies which make for the much differences.

Matemilola, Bany-Ariffin, Nassir and Azman-Saini (2017) investigated the moderating effects of firm age on the relationship between debt and stock returns. The system generalized method of moment's results indicates that firm age has a positive moderating effect on the relationship between book debt and stock returns. The results are robust, as firm age positively moderates the relationship between market debt and stock returns. Moreover, firm age has a direct positive effect on stock returns. Results suggest that as firms grow older, they use their experience to make effective capital structure decisions (i.e., optimal debt-equity mix) to maximize debt interest-tax-shield and increase shareholders' returns. This current study used multiple regression technique to analyse the data for the study which is different methodological approach.

Nguyen and Nguyen (2016) examined the relationship between firm sizes and stock returns of service sector in Ho Chi Minh City stock exchange. The paper aims at investigating the existence of size effect in Vietnamese financial market. Particularly, the relationship between firm size and stock returns was explored. Stock return was calculated by dividing the sum of stock price and dividend payment by previous stock price to achieve stock return in percentage while firm size was measure using log of total assets Having 160 observations of the companies in service sector from 2009 to 2014, the correlational research design was adopted and the multiple regression model was employed to test that effect. The result revealed a significantly negative relationship between firm size and stock returns. This study focused on firm size as an explanatory variable while this current study employed both firm characteristics and corporate governance variables.

Bala and Idris (2015) examined firms' specific characteristics of firm size, debt-equity, and earnings per share and stock market returns in Nigeria. The study samples nine (9) out of the twenty-one (21) quoted food and beverages firms in Nigeria from 2007 to 2013 by means of multiple regression models. The findings show that firm size has a significant and negative effect in stock returns of quoted food and beverages firms in Nigeria. The effect of earnings per share and debt-to-equity is found to be statistically significant and positive. The study did not factor in dividend in the measurement of the dependent variable (stock market returns). Stock return is the combination of dividend yield and capital appreciation. Also, the results of nine (9) out of over 170 sampled quoted firms cannot be the representative of the entire market. More firms would have explained the effect better. The study should have also included other

internal non-financial variables that have been examined and found to explain stock returns in other jurisdictions. Olowoniyi and Ojenike (2012) aimed at identifying the factors that influence stock returns as a major concern for practice and academic research. This paper investigates the determinants of stock returns of listed firms in Nigeria. Panel econometric approach was used to analyse panel data obtained from 70 listed for the period 2000-2009. The fixed effect (FE), random effect (RE) and Hausman-test based on the difference between fixed and random effects estimators were conducted. Their findings suggest that expected growth and size positively influenced stock return while tangibility negatively impacted on stock return of listed firms. This study was done in 2012 and given the changes in governance, economic fluctuations and other regulatory requirements; this study cannot be used to take informed business decisions.

### **Methodology**

This study adopted a descriptive ex- post facto research method and positivist research philosophy for the purpose of addressing the research problem. The population of the study comprised all the twenty-three (23) listed consumer goods firms on the Nigerian Stock Exchange as at 2020. The study used purposive sampling technique to obtain a sample size of sixteen (16) firms listed in the consumer goods sector. This number is arrived at using the criteria that a company must have complete information for the number of years under consideration (2011-2020). The study employed secondary sources for the purpose of data collection. The data was collected from the annual reports of the sampled companies for a period of ten (10) years (2011 to 2020). These firms are public limited companies listed on the Nigerian Stock Exchange. The study employed multiple regression technique as the procedure of analysis with aid of STATA version 13 as a tool of analysis. The data for the study is panel in nature (that is cross-sectional time series data). In order to check for endogeneity, the study used the Hausman specification test. Additional robustness tests adopted in this research include the test for Multicollinearity using the Variance Inflation Factor (VIF) and the Breusch-Pagan test for heteroscedasticity, to check for the fitness of model and reliability of findings.

The model for the study is adopted from previous studies of Igbal et al. (2016) Nguyen and Nguyen (2016) and Ltaifa and Khoufi (2016) and modified to suit the variables of the study as presented below:

$$SR_{it} = b_0 + \beta_1 FZ_{it} + \beta_2 FA_{it} + \beta_3 PROF_{it} + \varepsilon_{it} \dots (i)$$

Where: SR= Stock Returns, FZ= firm size, FA= age, PROF= profitability, b0 = intercept (constant),

i= cross-sectional time, t=time series,  $\varepsilon$  = Error term

### Measurement of Variables

S/N	Variables	Definitions	Type	Measurement	Construct Validity Source
1	SR	Stock Returns	Dependent	$P1-P0 / P0 \times 100$ <b>Where:</b> P1 represent price of the stock in current year as quoted at the end of the financial year. P0 represent price of the stock in the last financial year end.	Ayuba (2018); Bala and Idris (2015).
2	FZ	Firm Size	Independent	measured by Natural logarithm of Total Assets.	Nguyen and Ngyuyen (2016); Bala and Idris (2015). Akwe et al. (2018).
3.	FA	Age	Independent	Measured by firm's listing age; that is the number of years that have elapsed since the year of the company's IPO.	Shafana, Fathima and Jariya (2013)
4.	PR.	Profitability	Independent	Measured by ROA which is given as PBIT divided by Total Assets.	Sani, (2016); Handoko (2016).

**Source:** Researcher's Compilation, 2022.

## Results and Discussions

### Descriptive Statistics

This section contains the description of the properties of the variables ranging from the mean of each variable, minimum, maximum and standard deviation. The summary of the descriptive statistics of the variables are presented in table 2.

**Table 2: Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
sr	160	84.73062	264.197	.17	1485
fz	160	7.665492	2.200851	2.83181	14.87833
fa	160	28.3	14.39025	1	54
prof	160	.3020525	.2332101	-.2239673	.891987

**Source:** STATA OUTPUT, 2022

The outcomes in Table 2 indicates that the measure of stock return (SR) which is the inverse of the share price behaviour of consumer goods firms has an average value of 84.73062 and a corresponding standard deviation of 264.197. This imply that the deviation between companies within the period of the significantly differ. Also, the minimum and maximum values stood at 17 and 1485 respectively. The firms tend to record a significantly high stock returns in some years than in others. The table also indicates that the sample firms have an average firm size of 7.665493 with standard deviation of 2.200853. This means that the average value of firm size within the period of the study is 7.67 billion. The figure of the standard deviation means that there is a

high level of variance in firm size among the companies. The minimum and the maximum as shown by the table is 2.83181 and 14.8783. This implies that the least amount of firm size is 2.83 billion and the largest is 14.88 billion.

The descriptive statistics in Table 2 shows that on average, the firm age of companies during the period of the study is 28.3 years, with an accompanying standard deviation of 14.39025. This shows that on average firms have been existed for 28 years. The value of the standard deviation which is far from the mean show that there is a lot of differences in age among the sampled firms. The value of firm age for minimum and maximum is 1 and 54 respectively.

The descriptive statistics from Table 2 also indicates the mean of profitability is .3020525 which signifies that on the average 30% of the companies sampled made profit within the period of the study. Meanwhile, the value of the standard deviation which is .2332101 (23%) is close to the mean implying a certain of agreement with the claim that at least 30% of the companies registered profit at various periods in the ten years captured by this study. The profitability shows a minimum and maximum value of -.223967 and .891987 respectively. The minimum figure indicates 22% of the companies make losses while a maximum of 89% were making profit.

**Correlation Matrix**

The Pearson correlation analysis matrix shows the relationship between the explanatory and the explained variables and also the relationship among all pairs of independent variables themselves. It is useful in discerning the degree or extent of relationship among all independent variables as excessive correlation could lead to multicollinearity, which could consequently lead to misleading findings and conclusions. Table 3 presents the correlation matrix for all the variables.

**Table 3: Correlation Matrix**

Variable	SR	FZ	FA	PROF
SR	1.0000			
FZ	0.1359	1.0000		
FA	0.2490	0.5138	1.0000	
PROF	0.2344	0.3674	-0.0230	1.0000

**Source:** STATA OUTPUT, 2022

Table 3 showed that the correlation between the dependent variable, SR and the independent variables; firm size, firm age and profitability on one hand, and among the independent variables t on the other hand. Generally, high correlation is expected between dependent and independent variables while low correlation is expected among independent variables. According to Gujarati (2004), a correlation coefficient

between two independent variables 0.80 is considered excessive and thus certain measures are required to correct that anomaly in the data. From Table 4.2, it can be seen that all the correlation coefficients among the independent variables are below 0.80. This points to the absence of possible Multicollinearity, though the variance inflation factor (VIF) and tolerance value (TV) test is still required to confirm the assumption. The table reveals a positive correlation between the dependent variable stock returns and the explanatory variables of firm size, firm age and profitability with coefficients of 0.1359, 0.2490 and 0.2344 respectively. This implies that the three explanatory variables move in the same direction with stock returns.

**Robustness Test**

The following healthiness tests are carried out to find out whether data used for analysis are reliable.

**Test for Multicollinearity**

Non-existence of Multicollinearity is a key assumption of linear regression analysis. Multicollinearity occurs when the explanatory variables are not independent of each other. Multicollinearity is examined using tolerance and variance inflation factor (VIF) values. The result of Multicollinearity test is shown in the table 4.

**Table 4: Test for Multicollinearity**

Variable	VIF	1/VIF
fa	1.03	0.491734
fz	1.89	0.528388
prof	1.31	0.766126
Mean VIF	1.41	

Based on the evidence presented in Table 4, it can be concluded that there is no Multicollinearity problem. This is because the VIF values for all the variables are less than 10 and the tolerance values for all the variables are greater than 0.10 (rule of thumb).

**Test for Heteroscedasticity**

This test was conducted to check whether the variability of error terms is constant or not. The presence of heteroskedasticity signifies that the variation of the residuals or term error is not constant which would affect inferences in respect of beta coefficient, coefficient of determination (R<sup>2</sup>) and F-statistic of the study. Heteroscedasticity was tested using Breusch Pagan's Test. The results are presented below;



Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance  
 Variables: fitted values of sr  
 chi2(1) = 0.74  
 Prob > chi2 = 0.1202

The result shows the results of heteroscedasticity for the aggregated variables of the study. The goodness of fit test which is a statistical hypothesis test to show how sample data fit a distribution from a population with a normal distribution indicates pearson chi2 value of 0.74 and a corresponding probability of 0.1202. This means that the adjustment of the observations problems is well and no errors exist underlining the general fitness of the model.

**Hausman Specification Test**

In panel data analysis (the analysis of data over time), the Hausman Test can help to choose which between fixed effects model or a random effects model is appropriate for interpretation.

Test: Ho: difference in coefficients not systematic

$$\text{chi2}(3) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 0.76$$

Prob > chi2 = 0.8590  
 (V<sub>b</sub>-V<sub>B</sub> is not positive definite)

The Hausman Speciation Test is conducted to choose between the fixed and random effect model. The result of the Hausman Test revealed that the value of chi2 is 0.76 and corresponding prob > chi2 of 0.8590. The insignificant value as reported by the probability of chi2 indicates that the Hausman Test is in favour of random effect model. Furthermore, to meet the condition that one or more equations have to be satisfied exactly by the chosen values of the variables, the Breusch and Pagan Lagrangian Multiplier Test for random effect was conducted to choose between the random effect result and pooled OLS regression which is more appropriate. The result as shown below revealed a prob > chi2 of 0.0000. From this result, the best model to be interpreted is the pooled OLS regression model since the prob > chi2 is less than 0.05.

Breusch and Pagan Lagrangian multiplier test for random effects

	Var	sd = sqrt(Var)
sr	69800.07	264.197
e	3988.291	63.15292
u	57406.42	239.5964

Test: Var(u) = 0  
 chibar2(01) = 553.13  
 Prob > chibar2 = 0.0000

**Regression Results**

Three regression models were stated in methodology with the aimed at achieving the specific objectives of the study. The first model examined the effect of firm attributes (firm size, age and profitability) on share returns. The results of the study using pooled OLS regression as specified by the outcome of the Breusch and Pagan Lagrangian Multiplier Test for random effect is presented below as well as the test of hypothesis.

**Table 5: Pooled OLS Regression Result**

Source	SS	df	MS	Number of obs =	160
				F(3,156)	= 7.73
Model	1436709.98	3	478903.326	Prob > F	= 0.0001
Residual	9661500.61	156	61932.6962	R-squared	= 0.1295
				AdjR-squared	= 0.1127
Total	11098210.6	159	69800.0666	RootMSE	= 248.86

sr	Coef.	Std. Err.	t	P >  t	[95% Conf. Interval]
fz	19.19973	11.6543	1.65	0.101	-3.82086 42.22032
fa	2.940353	1.658177	1.77	0.078	-.335023 6.21573
prof	327.9157	94.37998	3.47	0.001	-514.3432 -141.4881
_cons	-46.60901	71.63107	-0.65	0.516	-188.101 94.88295

**Source:** STATA OUTPUT, 2022

In regression analysis, the result of the R-square value shows the level at which the explanatory variables explain the dependent variable. The regression result in Table 5 reveals that the R-square is 0.1295. This means that the firm attributes in the study explained stock returns to the tune of 13%. The value of F - statistic is 7.73 with probability of chi2 = 0.0001. The probability of chi2 is significant at 5%, indicating that the model is fit. This serves as substantial evidence to conclude that the firm attributes selected for the study are suitable and can be used to predict the behaviour of the dependent variable.

Based on the individual explanatory variables, the result reveals that firm size has an insignificant positive effect on the stock returns of sampled consumer goods firms in Nigeria, from the coefficient of 19.19973 with t-value of 1.65 and a p-value of 0.101 which is statistically insignificant at 5% level of confidence. This result suggests that,

an increase in firm size will increase the level of stock returns of firms. However, looking at the p-value such increase is considered insignificant. Hence, the study accepts the assertion that firm size has no significant effect on the stock returns of listed consumer goods firms in Nigeria.

The study also, examined whether age as a firm characteristic can determine the level of stock returns among of consumer goods companies in Nigeria. The result obtained from the pooled OLS regression indicates that firm age has a positive but insignificant effect on stock returns. This is evidenced by the value of coefficient and probability which is 2.9403 and 0.07 respectively. This imply that the age of firms has a positive contribution to stock returns. However, since the p-value is above the 5% level of significance, the study lacks evidence to conclude that age can significantly influence the stock returns of firms in the area covered by the study.

The regression result in table 5 indicates that profitability can significantly, determine the stock returns of quoted consumer goods companies in Nigeria. This result is evidenced by the value of coefficient which is 327.9157 and a p-value of 0.001 indicating a strong likelihood that profitability can be used to predict the level of stock returns in the consumer goods sector. Based this the study rejects the hypothesis that profitability has no significant effect on stock returns of quoted consumer goods companies in Nigeria.

### **Conclusion and Recommendations**

In order to come up with strategies for developing African rural economy, Attempt has been made in this study to examine the effect of three firm specific properties on stock returns of quoted consumer goods firms in Nigeria. The study formulates three hypotheses that firm size, firm age and profitability have no significant effect on stock returns of quoted consumer goods firms in Nigeria. Based on the result obtained, the study concludes that in so far, the aggregated firm attributes are concerned, their combined influence on stock returns of quoted consumer goods firms in Nigeria is significant. The effect however gets diluted as the variables are considered on individual basis. Specifically, the study finds that firm size and firm age do not have any significant influence on stock returns. Based this result, the study lacks any statistical evidence to conclude that these variables are determinants of stock returns of quoted consumer goods companies in Nigeria. However, the study finds statistical evidence to conclude that profitability can greatly influence the level of stock returns of quoted consumer goods companies in Nigeria.

The study provided statistical and empirical evidence to support that profitability have significant influence on stock returns among quoted consumer goods firms in

Nigeria. It is therefore, recommended that the Security and Exchange Commission (SEC) should continually subject the reported profits of consumer sector to stress quality tests to insulate the investors and potential investing public from possible rip off.

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## Chapter 5

# Checking The Bottlenecks Hindering Entrepreneurship Activities in Nigeria: A Strategy for Developing African Rural Economy

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### Abstract

**I**t has been observed that concentration of economic power, regional imbalances, exploitation by monopolists, and many other giant problems find their solutions in the development of small-scale industry. Constant change and innovations are simply a necessity of entrepreneurship and are becoming essential to survive in a global economy. The objective of the study is to evaluate some bottlenecks in the activities of entrepreneurs in Nigeria for sustainable development. The study employed an exploration research design. The findings revealed that financing problems have multiple causes, which also include government policies. The study concluded and recommended that the government should improve the deplorable status of infrastructural facilities, especially electricity supplies and good roads, to enable prospective entrepreneurs to undergo entrepreneurship training.

**Keywords:** Bottlenecks, Entrepreneurship activities, Nigeria, African Rural Economy

### Background to the Study

For the purpose of developing strategies for rural economies, any country's economic and financial sectors must be championed by a group of individuals who are imaginative, inventive, and goal-oriented. This is true since industrialized countries such as the United States of America, the United Kingdom, Germany, Japan, Canada, and even China, which has surpassed the United States as the world's second-biggest economy, owe their success to the growth of entrepreneurship. Even emerging countries such as Malaysia, Indonesia, India, Brazil, and South Africa profit from their

entrepreneurs' ingenuity. Due to a variety of constraints posed by the environment in rising nations like Nigeria, entrepreneurs have not succeeded.

According to Balagun (2004), entrepreneurship is the conceptualization and execution of new ideas by individuals who can use knowledge and mobilize resources to put their dreams into action. This perspective stresses the advocacy and implementation of radical change rather than requiring entrepreneurs to be highly talented at producing new ideas. Entrepreneurs that have succeeded in this endeavor are generally incredibly innovative, but they also frequently build their businesses on other people's ideas. At the same time, entrepreneurs with unique ideas are typically strongly driven to succeed, but their ability to do so is contingent on their ability to sell their ideas, as well as their sensitivity and openness to other people's perspectives and the economic environment's constraints. While some successful entrepreneurs are also innovators, this is not always the case. Many innovators, on the other hand, lack the business acumen required to assess and promote their inventions. The entrepreneur is a forward-thinking activist who excels at identifying possibilities and actively managing risks and uncertainties. He or she increases company risks at first by seeking out new prospects and testing them to discover if they are viable. Simultaneously and later, entrepreneurs are heavily invested in lowering risks by actively modifying current conditions and game rules. A successful entrepreneur understands the importance of timing and balancing risk generation and mitigation (Nystrom, 1995; Robert, 2002). Entrepreneurs who have prospered in Nigeria include Otedola, the Dangote Group, and Dantata. An exploratory research design was used in this study. Secondary data pertinent to this topic was used. The study goal is to identify the impediments to entrepreneurship growth in Nigeria; hence, the design was chosen accordingly. The exploratory research design is suited for this investigation. Important books, published and electronic resources, journals, seminar papers, and other mimeographs limited to the subject were employed.

#### **Statement of the Problem**

The rising prices of currently produced goods and services on the market are evidence of the high cost of production and grossly inadequate domestic production. Underemployment, poverty, and other issues plague Nigeria. Concentration of economic power, regional imbalances, monopolistic exploitation, and a slew of other major issues in emerging nations are addressed through the growth of small-scale enterprise, often known as entrepreneurship.

#### **Objective of the Study**

The objective of the study is to evaluate some challenges to the activities of entrepreneurship in Nigeria and proffer solution as strategies for developing African rural economy.



## **Literature Review**

### **Concept of Entrepreneurship as a business activity**

Entrepreneurship has no definitive definition since it signifies different things to different individuals based on their perspectives. Because the term entrepreneurship is so elusive, numerous definitions have been ascribed to it, particularly in terms of the context in which it is used. Entrepreneurship, according to Hisrich (2002), is the process of producing something unique and valuable by dedicating the necessary time and effort while accepting the associated financial, psychological, and social risk, and reaping the monetary and personal gains. Inegbenegbor (1989), citing Kibly, defined entrepreneurship as "the willingness and ability of an individual to seek out investment opportunities in order to establish and run a successful enterprise." In a similar vein, Usman (2006) defined entrepreneurship as an individual trait that refers to some common characteristics among entrepreneurs in terms of need for achievement, perceived locus of control, and risk taking propensity. Entrepreneurship, according to Brain (2004), is the art of coming up with profitable solutions to problems. Every successful entrepreneur has been able to spot a business issue and solve it before anyone else. Entrepreneurship is defined as the ability to search out business prospects, take risks that are beyond one's comfort zone, and persevere in bringing a concept to fruition (Zimmerer & Scarborough, 2006).

"Entrepreneurs are persons who have the capacity to perceive and analyze business possibilities, as well as the requisite skills and resources to take advantage of them and undertake proper action to achieve success," according to Meredith et al. (1996). According to Kuratko et al. (2001), an entrepreneur is an innovator or developer who recognizes and seizes opportunities, converts these opportunities into workable or marketable ideas, adds value through time, effort, money, or skills, assures the risks of implementing the ideas in a competitive market place, and realizes the reward from the efforts.

All of the definitions above attempt to describe entrepreneurship in a limited way. Some definitions, however, have a few flaws. The study chooses Kuratko et al.'s (2001) definition as the best and uses it in the research. The term appears suitable and appropriate for entrepreneurship's several elements, such as innovator, opportunity, and viable ideas.

### **The Importance of Entrepreneurship to National Economy**

Entrepreneurship, as an unquenchable element, is a driving force for every nation's progress. It plays a critical role in a growing country like Nigeria, which is grappling with serious socioeconomic issues. Entrepreneurship may be beneficial not just to a country's industrial sector but also to its agricultural and service industries. Unemployment, underemployment, poverty, and other issues plague Nigeria. The

formation and administration of small commercial businesses is synonymous with entrepreneurship, and establishing these units is the solution to these perplexing issues. Concentration of economic power, regional imbalances, monopolistic exploitation, and a slew of other major issues in emerging nations are addressed through the growth of small-scale manufacturing, often known as entrepreneurship. Inadequate infrastructure, a lack of cash, technical expertise, and transportation, a scarcity of low-cost, high-quality raw materials, and a lack of power are all obstacles that stymie entrepreneurship in Nigeria. The government has taken initiatives to foster entrepreneurship, as it is the only way for developing countries to solve their challenges. During the last three decades, entrepreneurship has exploded as a global movement that has extended across countries of all economic levels. Small company resuscitation has been evident for more than a decade in Europe and the United States as well. Constant change and innovation are an unavoidable part of entrepreneurship, and they are more necessary to succeed in a global market. "Innovation has become the industrial religion of the late 20th century," as the American journal 'The Economist' (1999) recently said. Today's managers and businesspeople require not just management but also entrepreneurial abilities. Entrepreneurship needs to be demystified and transformed into a skill through teaching and practicing. The skill of entrepreneurship knows how to turn an ordinary corporation, managed in a routine manner, into an entrepreneurial organization. People within the organization can be trained to:

- (i) Detect the opportunities;
- (ii) Pursue the opportunities and rewarded; and
- (iii) To lessen the consequences of failing.

### **Features of Entrepreneurship**

Entrepreneurship is defined as a person's proclivity to establish and operate his or her own firm profitably, utilizing different characteristics such as leadership, decision-making, invention, management ability, and so on. In a sense, entrepreneurship is a series of actions carried out by an entrepreneur. According to Usman (2006), the following are the characteristics of entrepreneurship:

1. Although classical economists such as Adam Smith and Richard Cantillon, among others, did not recognize entrepreneurship as an economic activity, entrepreneurship has gained attraction in recent decades and is increasingly being recognized as an economic function because it involves the creation and operation of a business. According to Usman (2006), all significant economic changes are initiated by entrepreneurs, who subsequently work their way through the economy in the form of a business cycle.
2. Entrepreneurship is a creative and inventive activity, according to Schumpeter. There are five different types of creativity. The introduction of a

new good includes the introduction of a new technique of production, the opening of a new market, the conquest of a new raw-material supply source, and the formation of a new industrial organization.

Gana (1995) When an entrepreneur brings together previously unrelated resources to create something new and unique, he is engaged in entrepreneurship at that instant. He believes that studying the many components of entrepreneurship, as well as the various causes that drive entrepreneurs and the various forms of inventive behavior that entrepreneurship may produce, is extremely beneficial. Entrepreneurs are drawn to the unfamiliar; they approach problems in novel ways; they weave old concepts into new patterns; and they provide more answers than exercises. However, being inventive isn't enough until it's translated into a product that benefits customers.

1. Nwakolo (1997) defined two characteristics of entrepreneurship: (a) doing things differently and better; and (b) making decisions in the face of uncertainty. Entrepreneurs are more likely to succeed if they have a strong desire to succeed. According to psychological theories, the way people are raised as youngsters has a significant impact on their ability to be entrepreneurs. Entrepreneurs are driven by demanding and competitive work environments, according to Nwakolo (1997).
2. Entrepreneurship is a creative and purposeful endeavor in almost every sense. Entrepreneurship is a response to a changing environment that is innovative. Making a profit isn't the only goal of entrepreneurship; it's also about introducing something new and innovative, and the benefits of that innovation must be shared with the general public.

### **Emerging Nations an Opportunity for Entrepreneurs**

Entrepreneurial opportunities in emerging nations like Nigeria are broader than in established markets, allowing companies to follow a portfolio-based strategy that can effectively manage higher levels of business and market risk. Nigerian entrepreneurs have unique challenges compared to those in affluent nations. These distinctions stem from the economy in which they function. Emerging markets lack the stability and consistency provided by mature markets. As a result, emerging markets offer a plethora of entrepreneurial opportunities. While Western entrepreneurs work on the periphery of the economy, entrepreneurs in developing markets work closer to the heart of the economy, where the demands and possibilities are more broad.

While well-established incumbents pose less of a danger to these entrepreneurs, the risks created by economic, political, and regulatory uncertainties are typically greater than direct competition challenges. Entrepreneurs in poor nations should distribute their resources among multiple independent but linked enterprises to avoid systemic

risk, which is a sensible, if counterintuitive, reaction. In consequence, the entrepreneur working in segmented markets, which is a hallmark of the Nigerian economy, frequently serves as a stand-in for a financial investor who controls risk through portfolio diversification. He controls portfolio risk by owning and running a variety of businesses rather than relying on investors to do it. In the absence of other sources of funding, a successful entrepreneur may support his other firms with internally produced cash flow from one of his businesses. The Japanese keiretsu system and Korean chaebols are examples of highly developed conglomerates with interlocking ownerships and commercial relationships that emerged in this way. Dangote, for example, employed this strategy in Nigeria. Interlocking businesses provide a source of informal information flow, access to a larger pool of talents and resources, and, when properly executed, a brand name that can be exploited across all firms, in addition to risk reduction and a source of capital.

How do interconnected company conglomerates get started since they're so frequent in emerging markets? Due to a lack of finance and fragmented retail and distribution, entrepreneurs are frequently forced to start enterprises downstream, with direct access to the end consumer. Starting downstream businesses requires less initial capital since working capital is lower, and it allows access to consumers and information flow, which is sometimes absent. Access to such data is sometimes neglected as a critical aspect of business success. The difficulty for enterprises to go beyond commodity markets into higher-value-added operations in developing nations is mostly due to a lack of access to the end consumer (Fairbanks & Lindsay 1997). Successful entrepreneurs typically use the domain experience, information flow, and revenue flow created by their retail and distribution firms to vertically integrate and move into upstream sectors.

#### **The Need for Financial Resources**

Limited personal and family resources, as well as a lack of financial innovation, significantly constrain the growth and prospects of potential start-ups in developing nations, despite the fact that entrepreneurial opportunities are larger and the resulting strategies are inherently self-hedging (David, Lynda, & Paul, 2006; Okpanachi & Andow, 2011). In the market for entrepreneurial financing in a particular context, the type of entrepreneurial prospects in emerging nations plays a key role. Entrepreneurs in developing nations must solve the following basic financial problems to a greater extent than in rich countries: is it sensible for an entrepreneur to devote financial resources to a new business if the probabilities of it surviving its first five years are less than 50%? If not, how can we comprehend entrepreneurs' insatiable need to launch new ventures? And how can we justify funding enterprises whose chances of success are frequently lower than a coin toss? (David, Lynda, & Paul, 2006; David, Lynda, & Paul, 2006).

Internal finance accounts for the bulk of financing for small and medium businesses in most developing nations, reflecting the bleak prospects for entrepreneurial success. In order to establish their enterprises, entrepreneurs in developing countries rely extensively on informal sources of financing; these sources supply between 87 percent and 100 percent of the outside cash raised by entrepreneurs (Bygrave, 2003). Other forms of funding, such as bank lending and venture capital, that are normally targeted by development finance organizations interested in enhancing access to finance in developing countries play a relatively limited role in financing entrepreneurs, at least at the start-up stage, at the moment. In poor countries, capital needs might be quite low (Rhidd, 2004; Johnston, Don, John, et al., 2004). There are two aspects to consider here: sources of revenue and acceptable depositories for funds while the new firm is being established. Retained earnings from a former firm, which are frequently in the retail or distribution sectors, can be a source of income. Some potential entrepreneurs are able to save start-up cash from their wages in Nigeria since well-paid government jobs remain available. According to research on the drivers of private savings in developing nations, countries that have experienced economic instability are more likely to have higher rates of private savings, which may be used as a safety net (Loayza, Schmidt-Hebbel, & Servén 2000). At least in terms of building the private capital pools required for start-up financing, a crisis might be seen as an opportunity. Furthermore, while urbanization is linked to successful entrepreneurship, it also leads to an increase in individual spending and a reduction in private savings. As a result, successful entrepreneurs in rural regions are more likely to develop methods to tap into larger pools of private savings. This emphasizes the value of well-developed family networks in both urban and rural settings. At this time, it is unclear how such private rural funds are channeled into urban businesses.

Microbusinesses might contribute to the formation of a savings pool from which a larger, more sophisticated corporation could emerge. Savings have been severely constrained due to a lack of attractive savings mechanisms in both the official and informal banking sectors, as well as the problems involved with investing in land or real estate as a savings vehicle (including land tenure concerns). The absence of safe buildings also restricts other types of de facto savings, such as inventory buildup (Grosh & Somolekae, 1996). These are only a few of the numerous reasons why microbusinesses in developing nations have historically failed to act as launching pads for growth-oriented ventures.

Finally, the more consumerist nature of emerging country economies has led personal savings rates to decline and personal consumer-related debts to rise, which is a significant but underappreciated and unrecorded phenomenon. According to anecdotal data from the Middle East and North Africa, excessive personal debt can significantly limit an entrepreneur's motivation and capacity to start a new business.

### **Research Findings**

The following issues have been identified as stumbling blocks to the development of entrepreneurship as a result of the various literature reviews: The main issue is a lack of funds. The availability of funds is the initial aspect of the finance challenge. Many entrepreneurs have innovative ideas but are unable to fund them due to a lack of funding. Most entrepreneurs, on the other hand, lack financial management skills. Government policies are another key impediment to entrepreneurial growth in underdeveloped nations, particularly Nigeria. Infrastructure and tax policy are among them. The country lacks infrastructure such as decent roads to facilitate product shipping and a shortage of electricity, forcing enterprises to rely on other energy sources like generators. Another big roadblock is security; people's lives are in jeopardy, and insecurity has resulted in the destruction of investment assets.

These issues are the government's obligation to address in order for entrepreneurship to thrive. In addition, doing business in Nigeria has significant expenses. As previously said, no country can thrive unless entrepreneurship is encouraged. To stimulate the growth of businesses, the government must forego some of the benefits it may receive today. When the government imposes excessive taxes, the rate of company deaths rises.

A lack of grasp of the market situation is another barrier to entrepreneurial growth. It's not enough to have a great business idea or an innovative product. The challenge is whether such an idea can be commercialized in a certain business setting.

### **Conclusion and Recommendation**

As a strategy for developing the African rural economy, the goal of the research was to pinpoint some of the roadblocks to entrepreneurial growth in Nigeria. Lack of proper financial management, insufficient physical facilities, and a lack of entrepreneurial skills are just a few of the stumbling blocks identified by the research. In addition, the research defined entrepreneurship from the viewpoint of experts in the sector. Entrepreneurship was explored in terms of its importance, characteristics, and opportunities, among other things.

The following suggestions were offered at the end of the discussion: The government should repair the dismal state of infrastructure facilities, particularly power and excellent roads, as soon as possible to allow aspiring entrepreneurs to participate in entrepreneurship training. To alleviate the suffering involved, the government could simplify the burdensome procedures for acquiring credit facilities from banks (both public and commercial banks). The government should pursue the issue of personal and property security with vigor. Investors will find it difficult to make investments in a country if there isn't adequate security. When it comes to bringing their business

ideas to life, potential entrepreneurs are also concerned about their lives and property. The government has a big role to play in ensuring that the economy flourishes over time, irrespective of the enormous challenges.

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## Chapter 6

### The Study of Government Policy on Stock Market Development and Economic Growth in Nigeria (1984-2020)

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#### Abstract

**T**his study explored the relationship between stock market development and Nigerian economic growth. This was done to look at Nigeria's stock market and economic growth from 1984 to 2020. The analysis relied on secondary data. The Central Bank of Nigeria statistical bulletin for 2021 presented data on stock turnover ratio, stock market capitalization ratio, total value of shares exchanged ratio, all share index, and GDP. Granger causality, Augmented Dickey Fuller Unit root test, Johansen cointegration test, and error correction model were used to analyze the data. Granger causality was shown. There is no reverse causality between stock market development metrics such as stock market capitalization ratio, turnover ratio, or total value of shares exchanged ratio and economic growth. All share index, stock market capitalization ratio, turnover ratio, and economic growth were integrated of order 1, while total value of shares traded ratio was integrated of order zero, according to unit root test results. The Johansen cointegration test showed that the All-Share Index, Stock Market Capitalization Ratio, Turnover Ratio, and Economic Growth all have four cointegrating relationships. Changes in the all-share index have a positive and significant impact on changes in economic growth, whereas changes in the stock market capitalization ratio and its lag have a negative but insignificant impact on changes in economic growth ( $p > 0.05$ ). Changes in the turnover ratio have a positive but insignificant impact on changes in economic growth ( $p > 0.05$ ), while its lag has a negative but insignificant impact on changes in economic growth ( $p > 0.05$ ). Changes in lagged GDP have a positive and important effect on changes in economic present-period growth ( $p < 0.01$ ), and economic growth and the independent

*variables in our model have a long-run relationship as indicated by the negative and statistically significant error correction term in the model ( $p < 0.01$ ). Based on the results, the study recommends that the Federal Government intervene through the Asset Management Corporation of Nigeria (AMCON)/Ministry of Finance Incorporated, that more indigenous quotable companies be encouraged to pursue listing by offering incentives such as tax holidays, tax rebates, and other incentives, and that stock broking firms be encouraged to join forces, either through mergers or outright acquisition amongst other recommendations.*

**Keywords:** *Asset Management Corporation of Nigeria (AMCON), Ministry of Finance, Stock market development, Nigerian economic growth, All-Share Index*

## **Introduction**

In terms of the distribution and movement of funds, financial markets, like capital markets, serve as an intermediary in an economy. They have several channels by which funds for projects can be made available to companies that need them (Muhammed & Liaquat, 2008). A well-functioning and developed stock market ensures economic growth by lowering the cost of capital or equity for listed firms, rising domestic savings, and increasing equity and investment levels (Osie, 2005). The creation and growth of stock markets have attracted research attention as a driver of economic growth in developing economies around the world, such as Nigeria, especially in the last few decades. This is especially true now that national development has become a priority for many countries. Governments and industry may use the stock market to raise long-term capital for new ventures as well as to extend and modernize their industrial and commercial operations. The rate of economic expansion often suffers if capital resources are not given to those economic areas, especially industries with growing demand and the ability to increase output and productivity (Ifuero, 2012).

The stock market plays a major role in financial intermediation in both developed and developing countries by channeling idle funds from surplus to deficit units in the economy (Okafor, 2011). As a country's economy expands, more resources are needed to keep up with the rapid growth. Apart from the banking sector, which acts as a conduit between surplus and deficit earners in the economy, the stock market acts as a channel by which surplus earners' savings are mobilized and efficiently allocated to achieve economic growth. The allocation of such surplus funds aids in improving

capacity utilization and promoting productive activities in the economy. Levine (1992) explains that well-functioning stock markets have often reduced problems of asymmetric information and thereby reduced the costs of lenders and borrowers. This ensures increased productivity through the efficient and effective allocation of resources. He further relates that countries with a well-developed stock market system have been associated with better per capita income than countries that do not.

According to Okereke (2000), a stock market's other position in the economy is that resources are diverted to the most profitable locations, with government and private sector investments mostly going to high-risk, high-return long-term ventures. This, in turn, contributes to economic development. Stock markets play an important role in the intermediation of surplus (savers) and deficit (debtors) units (i.e., parties that need funds for productive projects). The Nigerian Stock Exchange (NSE) helps the government and industrialists collect long-term capital for construction projects and industry expansion and modernization, respectively. This means that the NSE is a market for trading long-term securities of various types. The NSE provides all required facilities, regulations, and procedures to ensure healthy market competition and development. As a result, the NSE acts as a middleman between fund providers and long-term fund investors. The NSE's assigned role is crucial in deciding the economy's overall development. "If capital resources are not provided to those economic areas, especially industries where demand is growing and which are capable of increasing productivity, then the rate of expansion of the economy will inevitably suffer" (Alile, 1996). As a result, the stock market is characterized as the hallmark of the Nigerian capital market because it plays such an important and necessary role. The stock market operates mainly to facilitate the movement of funds. Capital mobilization, on the other hand, would be limited to the channeling of investments into new problems, resulting in a new rise in capital growth. Since the NSE's inception in 1961, the Federal Government of Nigeria has used the stock market to raise long-term loans for lending to regional and later state governments for development projects. The federal government had been encouraging the state governments to approach the stock market to raise long-term capital for development projects on their own merit. In this way, the state governments will be subjected to market discipline.

Currently, most state governments have used the stock market to raise long-term funds for growth. The Nigerian stock market has also become a viable choice for capital formation because of foreign exchange market liberalization, deregulation of interest rate structures, and dividend policy. More businesses are turning to the stock market to help them improve their balance sheets and expand. There has been a flurry of rights issues and subscription deals for equity and debenture stocks during this process. Several scholars have investigated the role of stock market operations in

determining economic growth. Even though equity issuance is a minor source of funds, Rousseau and Wachtel (2000) in Riman (2008) advanced four reasons for the stock market's impact on economic development. For instance, the stock market offers investors and entrepreneurs a way to get the most out of their savings. According to them, venture capital investments would be more appealing in countries with a working public stock exchange than in countries without one. Secondly, capital inflows—both foreign direct investment and portfolio investments—are potentially important sources of investment funds for emerging markets and transition economies. Third, the availability of liquidity through structured markets allows both foreign and domestic investors to move their surpluses from short-term assets to the long-term capital market, where the funds will provide companies with permanent capital to finance massive, indivisible ventures with substantial scale economies. Finally, having a stock exchange offers useful knowledge that increases the efficiency of financial intermediation in general (Emeni & Asein, 2003).

Stock market creation offers a forum for bettering capital allocation and, as a result, improving long-term economic growth prospects. According to Ewah (2005), the effectiveness and efficiency with which the stock market executes its capital locative functions determine the overall growth of an economy. When the stock market mobilizes capital, it also allocates a greater portion of that capital to companies with reasonably high prospects, as measured by their returns and risk levels. The significance of this function is that capital resources are channeled by the mechanism of the forces of demand and supply to those firms with relatively high and increasing productivity, thus enhancing economic expansion and growth (Ezeabisili & Alajekwe, 2012). Economic growth may be a result of stock market development, which is popularly argued to attract economic growth. This indicates a potential bi-directional causality between stock market development and economic growth and is based on the popular finance-growth nexus literature, which argues that finance and economic growth are causally related. In terms of economic growth potentially triggering stock market development, this may happen because economic growth generates opportunities for investment, which would contribute to stock market development as stock market investors arise to provide credit to these companies on the stock market.

As a result, the current research focuses on Nigeria's stock market development and economic growth. The research focuses on the relationship and causality between stock market development and economic growth, as well as the effect of stock market development on economic growth, with economic growth being measured using the log of GDP. Three different metrics of stock market growth, namely the market capitalization ratio, turnover ratio, and total value of shares traded ratio, capture different dimensions of stock market development. The stock market capitalization to

GDP ratio is a measure of the stock market's size and is linked to the ability to mobilize capital and diversify risk (Levine & Zervos, 1996; Yartey, 2008). The liquidity dimension of stock market growth is captured by the turnover ratio and the total value of shares traded ratio. These metrics supplement the stock market size metric by capturing the capital market's operation. The liquidity of the market, which refers to the capacity to exchange easily or the ease and speed at which economic agents can buy and sell securities, is a key feature of a developed capital market.

### **Statement of Research Problem**

The importance of stock market creation for an economy's growth cannot be overstated. However, in the case of developing world stock markets, especially those in Africa, such as Nigeria's, there are impediments that have prevented the growth of stock markets over time. Given previous research highlighting the importance of a developed stock market for economic growth, the weak development of African country stock markets may have prevented the realization of the developing countries' bright economic growth prospects, including Nigeria.

The growth of the Nigerian stock exchange has been hampered by a variety of factors over the years, including low-quality institutions, a lack of rule of law, and poor regulation. As a result, this has contributed to the market's low participation rate. This is despite financial liberalization undertaken as part of the Structural Adjustment Programme (SAP) in the 1980s and subsequent reforms, all of which should have led to the Nigerian stock market's improved growth. The Nigeria Stock Exchange as a source of funds for firms to expand remains rather low in its development, as evidenced by the low values of stock market development indicators over the years, namely, stock market capitalization ratio, turnover ratio, and total value of shares traded ratio. These indicators remain rather poor and indicate that the market suffers from liquidity challenges (measured by stock turnover ratio and total value of shares traded ratio) (Osaze, 2000). This is despite previous research, often using ordinary least squares, finding a positive impact of stock market development on economic growth in countries in general (Bilal, 2016) and in Nigeria in particular, as highlighted by Bernard and Austin (2011), Okonkwo, Ogwuru, and Ajudua (2014), and Adigwe, Nwantto, and Amala (2015), which remains dubious in the context of developing country studies. Furthermore, studies that investigate the causal relationship between stock market development and economic growth reveal inconsistencies in their findings, with some showing a unidirectional relationship between stock market development and economic growth (Aigbovo & Izeke, 2015), while others show a bi-directional relationship (Okonkwo & Ogwuru, 2015). The weakness of the methodology employed by previous studies using ordinary least squares in examining stock market development and economic growth and inconsistencies regarding the direction of causality between stock market development and economic

growth represent the research gap to be filled by the present study.

### **Research Question**

This analysis will be motivated by the following research questions:

1. Is there a connection between Nigerian stock market development and economic growth?
2. What is the effect of Nigeria's stock market creation on the country's economic growth?

### **Objectives of the Study**

The overall goal of this research is to look at Nigeria's stock market and economic growth. The following are the specific objectives:

1. Determine the causality between stock market development and economic growth of Nigeria.
2. To assess the effect of Nigeria's stock market development on the economic growth of Nigeria.

### **Significance of the Study**

The thesis will act as reference material for prospective researchers who might be interested in conducting similar studies on this research once it is completed. The research will assist policymakers in the country in better understanding the empirical relationship between stock market development and economic growth, helping them formulate policies that will better position the economy. Furthermore, by making suggestions, policymakers and executors would be able to use them to boost the growth of the Nigerian stock market, allowing the Nigerian economy to advance.

Furthermore, the study is interesting because it adds to the body of literature on the effect of stock market development on economic growth and opens new avenues for analysis.

### **Scope of the Study**

The current research will look at the progress of Nigeria's stock market and economic growth from 1984 to 2015. This will result in 32 annual observations, which will provide a large enough sample size for useful regression analysis results. Furthermore, by beginning the study in 1984, we can capture the time when Nigeria's stock market was founded and continue until the most recent year of observation, enhancing the usefulness of data-driven recommendations.

### **The Study's Strategy**

The thesis will be meticulously divided into five chapters for the sake of simplicity and orderliness. The history of the study, the statement of the issue, the research question,

the research objectives of the study, the importance of the study, the scope of the study, and the study plan are all included in chapter one. The conceptual structure, theoretical framework, and analysis of previous empirical studies on stock market development and economic growth are all included in Chapter 2, which is the literature review. The research methodology chapter primarily outlines the theoretical structure, model specification, a priori expectation, variable measurement, data analysis process, and source of data. The fourth chapter will cover the presentation of data analysis findings as well as their explanation and discussion. Finally, chapter five, the study's final chapter, offers a review of results extracted from all of the study's chapters, as well as the study's conclusion, policy proposals based on the research findings, and suggestions for future research.

### **Literature Review**

#### **Review of the Concepts of Economic Growth and Stock Market Development**

Economic growth and the stock market are concepts that have evolved over time. Theoretical and observational experiments are used to evaluate these principles.

#### **Economic Growth**

Economic growth, according to Lipsey (1986), is characterized as a long-term upward trend in a country's total production. This means that the gross domestic product (GDP) will continue to grow for a long time. An increase in an economy's capacity to produce goods and services from one time to the next. Economic development is often linked to technological advancements. An economy's growth is characterized not only as an increase in productive ability but also as an improvement in the quality of life for its citizens (Ochejele, 2007). Economic growth, according to Dolan and Lindsey (1991), is most measured in terms of an increase in gross domestic product (GDP), which is a calculation of the economy's overall production of goods and services. Economic development, according to Friedman (1972), is the expansion of various structures such as schooling, agriculture, and so on without a change in the framework. This means that for an economy to evolve, the different structures or frameworks within it must expand, even though their structure remains unchanged. Todaro and Smith (2006) describe economic growth as a steady process in which the economy's productive potential is increased over time, resulting in increasing levels of national production and income. Economic growth, according to Jhingan (2004), is described as an increase in production. He went on to claim that it is connected to a sustained increase in a country's per capita income or production, as well as growth in its labor force, consumption, resources, and trade volume. Taking into account the different meanings of By comparing one period of time to the next, economic growth refers to an improvement in an economy's capacity to manufacture goods and services. A positive change in a country's or economy's output, or demand, is referred to as economic development. This term includes all facets of an economy, including

income, taxation, and wages, as well as production rates (Aiguh, 2013). Economic growth is a critical component of long-term sustainability. It raises people's living standards through improvements in infrastructure, health, housing, education, and agricultural productivity. Thus, sustainable development is enhanced by economic growth (Dewett, 2005).

### **Stock Market**

The stock market is a place where long-term loans are traded. It provides fixed and working capital to businesses and finances the federal, state, and local governments' medium- and long-term borrowings (Levine, 1991). As a result, the capital market is made up of institutions and structures that pool short- and long-term assets and make them available to corporations and governments (Ezeoha, Ebele, & Onyiuke-Okereke, 2009). The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded or raise additional capital for expansion by selling shares of ownership in the company in a public market. The liquidity that an exchange provides affords investors the ability to easily sell securities (Osie, 2005). In another sense, a stock market is a public market (a loose network of economic transactions, not a physical facility or discrete entity) for the trading of company stock shares and derivatives at a negotiated price; these securities include those listed on a stock exchange as well as those exchanged privately. The stocks listed are traded on stock exchanges, which are companies or mutual associations that specialize in bringing buyers and sellers of stocks and shares together (Donwa & Odia, 2010).

By channeling idle funds from surplus to deficit units in the economy, the stock market plays a significant role in financial intermediation in both developed and developing countries (Okafor et al., 2011). In terms of the distribution and movement of funds, stock markets serve as an intermediary in an economy. They have a number of channels through which funds for projects can be made available to companies that need them (Muhammed, Nadeem, & Liaquat, 2008). According to Beck and Levine (2002), the stock market serves as a channel through which the savings of surplus earners are mobilized and efficiently allocated to achieve economic growth. The allocation of such surplus funds helps enhance capacity utilization and promote productive activities in the economy. A stock market is a public market where company stock and options can be exchanged at a fixed price; these stocks can be listed on a stock exchange or traded privately. Stock markets are one of the most important components of the financial system since they assist businesses or corporations in raising capital by selling securities and also provide a trading atmosphere for those shares (Okonkwo, Ogwuru, & Ajudua, 2014).



### **Functions of Stock Markets**

The following are functions of stock markets around the world as highlighted by Al-faki (2007);

1. The encouragement of fast money
2. It is a piece of equipment used to mobilize long-term financial capital for industrial growth
3. Providing the government with a source of revenue other than taxes
4. The pooling of savings from a variety of economic units in order to spur growth and development
5. Providing liquidity to any investor or assisting in the growth of investors
6. The expansion of asset ownership and the creation of a strong private sector
7. It is a method of getting debts paid off
8. Using the pricing mechanism, promote a more effective distribution of new investment
9. The creation of a built-in operational and allocation efficiency within the financial system to ensure that resources are optimally utilized at relatively little cost
10. It is a necessary liquidity mechanism for investors through a formal market for debt and equity securities

### **Overview of the Nigeria Stock Market**

The Nigerian Stock Market, also known as the Nigerian Stock Exchange, was established in 1960 as the Lagos Stock Exchange and renamed the Nigerian Stock Exchange in December 1977. It first opened for business in 1961, with 19 shares available for trading. Branches have been developed in the country's major cities. Except for the head office in Lagos, the Nigerian Stock Exchange now has thirteen branches. There is an electronic trading floor in each branch. In 1961, the company's headquarters in Lagos were built. The NSE continues to grow to meet the needs of its valued customers and to maintain its competitiveness. There are approximately 200 companies and 258 securities listed. The Exchange operates fair, orderly, and transparent markets that bring together the best of African enterprises and the local and global investor communities. The stock market is the bedrock of every financial system because it provides the funds needed to finance not only businesses and other economic institutions but also the government's overall program. The capital market is primarily a market for long-term securities such as stocks, debentures, and bonds with maturities of more than three years. Despite the fact that shares were floated as early as 1946, the proper functioning of the capital market did not begin until the establishment of the Central Bank in 1959 and the launch of the Lagos Stock Exchange in 1961.

The need for an organized stock exchange emerged, and the government created a

committee, chaired by Prof. R.W. Barbock, to examine the feasibility of creating an indigenous forum for the purchase and sale of shares and stocks. The government, quoted firms, stock brokers, the Central Bank of Nigeria, banking and non-banking institutions, the Nigeria stock exchange, and the Nigeria Securities and Exchange Commission are the main participants in the Nigerian capital market. According to Aigbovo and Izekor (2015), the Nigerian stock market was formed for the following reasons:

1. To overcome difficulties of selling government stock.
2. To provide local opportunities and lending for long term purpose
3. To enable authorities mobilized long term capital for economic growth and development
4. To enable the foreign business the chance of offering their shares to interested

#### **Nigerian Stock Market Measures**

According to Kolapo and Adaramola (2012), the following are classified as Nigerian stock market measures:

1. **Market Capitalization Ratio (MCR):** This metric is determined by dividing the market value of listed stocks by GDP. This metric is based on the premise that total market size is positively linked to the ability to mobilize capital and diversify risk across the economy. The market capitalization index is a common metric for calculating the value of the stock market. The cumulative value of all listed shares is equal to their market capitalization.
2. **Total Value of Shares Traded Ratio (STR):** This metric is determined by dividing the total value of shares exchanged on a stock exchange by GDP. The total value traded ratio calculates structured trading of firm equity as a percentage of national output and thus should represent liquidity on a national level. While a market may be big, there may be little trading, so the total value traded ratio complements the market capitalization ratio.
3. **Liquidity** is a term that refers to an investor's ability to buy and sell securities quickly. It's a key predictor of stock market performance because it demonstrates how the market aided in bettering capital allocation and, as a result, enhancing long-term economic growth prospects. This is made possible by investors' ability to change their portfolio rapidly and cheaply, lowering the risk of their investment and encouraging investments in ventures that are more lucrative but have a longer gestation period.
4. **Turnover ratio** is used as a reference index for market liquidity ratings and transaction cost ratios. The total value of shares traded on the stock exchange divided by market capitalization equals this ratio. It is also a ratio of the market capitalization divided by the value of the stock market's listed securities. It is also an indicator of the size of the stock market in relation to the volume of securities transactions.

### **Role of Nigeria Stock Market for Nigeria's Economic Growth**

The stock market's efficient and effective activity is expected to fuel economic growth by offering opportunities to increase domestic savings and investments in both qualitative and quantitative terms (Singh, 1997). The stock market offers a framework for encouraging domestic savings by providing individuals and corporations with supplementary financial instruments capable of meeting their risk preferences and liquidity requirements (Levine & Zervos, 1998). The Nigerian Stock Exchange has not only made funds available for investment but has also allocated these funds to ventures that offer the highest returns to investors, primarily through dividends and stock price appreciation. The market is critical to Nigeria's economic development because it serves as a conduit for the government's monetary policy, as well as tracking and controlling managers and promoting financial risk management.

According to Aiguh (2013), the Nigeria Stock Market has impacted Nigeria's economic growth through the following points:

1. The stock market encourages the inflow of foreign capital when foreign companies or investors invest in domestic securities.
2. The capital market assists the government in privatization initiatives by allowing members of the public to purchase shares of public companies through the stock exchange.
3. It has had a positive effect by offering a channel for the sale of shares and other securities to raise new funds for operation expansion, resulting in increased production and output.
4. It decreases the private sector's reliance on short-term funding for long-term projects while also allowing the government to fund projects that provide basic facilities for socio-economic growth.
5. The market provides a means of allocating the nation's real and financial resources between various sectors, industries, and companies. Through the capital formation and allocation mechanisms, the market efficiently distributes the scarce resources for optimal benefit to the economy.

### **Theories of Economic Growth**

A variety of economic growth theories have been established over the years and continue to serve as the basis for modern empirical research. This section surveys and examines a variety of important hypotheses of economic growth as they apply to the current research.

#### **Harrod Domar Growth Theory**

Harrod and Domar (1946) addressed the Harrod-Domar growth theory, which is focused on advanced economies' experience. They are specifically aimed at advanced

capitalist economies, and they attempt to examine the need for steady growth in such an environment. A more detailed light-time theory of input is given by Harrod Domar's growth theory. In their separate writings, Harrod Domar agrees to retire on the condition of steady economic growth. Even though their models vary in certain details, their conditions are basically the same. As a result, their versions are known as Harrod Domar models. Harrod and Domar, on the other hand, see capital accumulation as a crucial factor in the economic growth process. More capital should be incurred to promote sector for the emphasis of capital accumulation, (that is net investment has a double role to play in the economic growth). It generates on one hand an increase production capacity of the economy. Such as 20 establishment of new factory which generates income for those who supply labour (factor), bucks, steel, oil, cement which enhances sector to be more effective therefore capital stock there by enhance the production capacity of the economy. The new income generated creates demand for goods which promote sector promotion and substitution for import. The necessary condition for growth is that new spending for demand must be adequate to absorb the production generalizes by the necessary stock or else, there will be idle growth. Assumptions Harrod Domar assumed a constant output ratio:  $\Delta Y = \Delta K$ .  $\Delta Y/\Delta K$  (1) Where;  $Y$  = National Output  $BK$  = Total Stock of Capital Some output of capital ratio is assumed to be constant and increase in National Output which is  $Y$  (change in National Output) must be equal to  $K \times \Delta K = (\Delta Y = K \times \Delta K)$ . It implies that growth in national growth will depend on and be limited by the growth in capital stock. If an economist assumes an economy to be in equilibrium, and the existing stock of capital is fully employed then  $Y = K\Delta K$ . This is how much additional output will be pilled to produce a given quantity of additional output. Thus  $\Delta K = 1$ , if  $\Delta K = 1$ , then  $Y = K\Delta K$  hence  $\Delta Y = K1$  At equilibrium level of output, desired savings must be equal to desired level of income. Therefore  $S Y = I$  invariable  $I$  (investment) =  $S$  given the assumption, the growth rate is defined as  $\Delta^*Y/Y$ .

### Meade's Model

The net output generated in the economy depicted above is determined by four factors:

1. The total amount of available capital in the form of machines
2. The total amount of available labor force
3. The availability of land and natural resources
4. The existing state of technological expertise

This relationship is expressed in the form of the production function as:  $Y = F(K,L,N,t)$

(2) Where;  $Y$ = net output or net national income

$K$ = the existing stock of capital (machines)

$L$ = the labour force

$N$ = land natural resources

I= time over which technological takes place

Assuming the amount of land or natural resources to be fixed, net output can increase in any one year with the growth in K, L, and f. This relationship is shown as:  $\Delta Y = V\Delta K + W\Delta L + \Delta Y'$

Where;

$\Delta$  in each case represents an increase.

V is the marginal product of capital, the marginal product of labour and W is used in place of f. Thus "the increase over the year in the rate of annual net output ( $\Delta Y$ ) is equal to the increase in the stock of machinery ( $\Delta K$ ) multiplied by its marginal products (V) plus the increase in the amount of labour ( $\Delta L$ ) multiplied by its marginal product (W) plus: the increase in the rate of annual output due simply to technical progress ( $\Delta Y'$ )."

The annual proportionate growth rate of output is;

$$\Delta Y/Y = VK/Y \cdot \Delta K/K + WL/Y \cdot \Delta L/L + \Delta Y'/Y$$

Where;

$\Delta Y/Y$  is the proportionate growth rate of output

$\Delta K/K$  the proportionate growth rate of the stock of capital

$\Delta L/L$  the proportionate growth rate of labour force

$\Delta Y'/Y$  the proportionate growth rate of technical progress during a year

Let these proportionate growth rates be expressed as y, k, I and r respectively, the proportionate marginal product of capital  $VK/Y$  as U and the proportional marginal product of labour  $WL/Y$  as Q. \* Now the basic relationship is;  $y = Uk + QI + r$

This shows that the growth rate of output(y) is the weighted sum of three other growth rates, first the sum of the growth rate in the stock of capital (k) weighted by the proportional marginal product of capital (U) plus the growth rate of population (I) weighted by the marginal product of labour (Q) plus the growth rate of technology (r).

### Classical Growth Theory

The classical growth theory, as discussed by Adams (1770), is usually considered the modern school of economic thought and includes Adam Smith, David Ricardo, John S. Mills, Thomas Malthus, and so on. The main contribution of the classical approach to economic growth is the view that product entails the means for productivity, which include capital and land resources. In 1776, Adam Smith wrote in his book "The Prosperity of Nations" that income per capita in any country can be affected or controlled by the talents, dexterity, and judgment with which resources are applied, as well as the ratio of employed to unemployed workers. According to Smith, the division of labor is the secret to increasing labor productivity, which is dependent on both the size of the economy and the rate of capital accumulation. The most significant advancement is labor's productive strength in the division of labor. Thus, in classical

theory, huge productivity is traceable to the division of labor. Smith saw economic growth as facilitating the activities of farmers, producers, and businesspeople. The accumulation of component effort, which is like the accumulation that occurs in agriculture, manufacturing industries, and advertising, is followed by a continuous capital accumulation technical phase, division of labor, and an increase in profit over time. Another claim advanced by David Ricardo is that trade is an essential component of an economy because it is intended to benefit the participating countries, especially because of some comparative advantage.

### **Empirical Literature Review**

#### **Causality between Stock Market Development and Economic Growth**

Aigbovo and Izekor (2015) analyzed stock market development and economic growth in Nigeria and used time series econometric techniques (unit root test, co-integration, error correction process, and granger causality) to re-examine the finance-growth Nexus for the period 1980-2011. Real Gross Domestic Product (RGDP) was used as a proxy for economic growth, while stock market development was calculated using Market Capitalization (MCAP), Turn Over Ratio (TR), Total Value of Shares Traded (VLT), and All Share Index (ASI). The study reveals that turnover ratio (TR) positively and significantly influences economic growth both in the short-run and long-run while total value of share traded (VLT) and all share index (ASI) were significant in the short-run. In Nigeria, Okonkwo (2015) investigated the effect of stock market development on economic growth as well as the direction of causality between stock market development and economic growth. The Johansen co-integration model was used to assess the stock market's development and causal relationship with economic growth using four stock market development indices: market capitalization, number of transactions, all-share index, and total value of market transactions. All the stock market growth interventions were found to be co-integrated in the report. Results obtained for all measures of stock market development indices point to the existence of a positive relationship between stock market development and economic growth, except for market capitalization and the total value of market transactions.

Guglielmo, Howells, and Simon (2004) examine the causal linkage between stock market development, financial development, and economic growth. The argument is that any inference drawn from bivariate causality tests that financial liberalization causes savings, investment, or growth, or that financial intermediation causes growth, may be invalid, as invalid causality inferences can result from omitting an important variable. The empirical part of this study exploits techniques recently developed by Toda and Yamamoto (1995) to test for causality in VARs and emphasizes the possibility of omitted variable bias. The evidence obtained from a sample of seven countries suggests that a well-developed stock market can foster economic growth in the long run.

### **Summary of Literature Review**

Concepts of stock market development and economic growth, theories of economic growth, and empirical research on stock market development and economic growth have all been discussed in this chapter. Harrod Domar's growth theory, Meade's neoclassical model of economic growth, Solow's growth model, the classical growth model, and efficient market theory to capture stock market production were among the economic growth theories examined. The study's empirical analysis includes many reports from different developing countries around the world, with most of them focusing on Nigeria. Based on the empirical review above, in most of the studies, stock market development was found to have a positive impact on economic growth, both when time series studies were examined as well as in panel data studies, especially in African countries. It is, however, noted that most of the studies, especially those carried out in Nigeria, adopt ordinary least squares regression techniques, and this does not enable an examination of the long-run relationship between stock market development and economic growth as will be enabled where co-integration and error correction models are employed. Further, those studies that examine causality between stock market development and economic growth reflect inconsistencies in their findings, as some results show a uni-directional relationship between stock market development and economic growth (such as Aigbovo & Izekor, 2015), while others show a bi-directional relationship between stock market development and economic growth (such as Okonkwo, 2015; Osuala, Okereke, & Nwansi, 2013; Acquah-sam & Salami, 2014). Given the contradictions in findings in the literature regarding causality, the current study seeks to investigate causality between stock market development and economic growth in Nigeria as a contribution to information. Further, the study will shed light not only on the impact of stock market development on economic growth but also on the use of co-integration and error correction models based on the reasoning that economic growth and stock market development are long-run variables, hence the need to capture the long-run equilibrium relationship between the two.

### **Research Methodology**

#### **Theoretical Framework**

The theoretical framework for the study will be the Neoclassical Growth model. The model is used as the theoretical basis for this analysis because it is an exogenous growth model that has been commonly used in empirical studies of finance and economic growth. Financial development, which will be proxied by stock market development in our case, is an input in the economic growth process and results in economic growth in such studies. Odedokun (1998) is one of these studies that used the neoclassical economic growth model to analyze financial development and economic growth.

### Model Specification

The model for the study is a modification of Aigbovo and Izekor (2015) model where market capitalization in the model is replaced by market capitalization ratio. Our Model is specified as below:  $GDP = (MCR, TVSTR, TOVR, ASI)$

The above equation is specified as an econometric model as below:

$$\text{LOGGDP}_t + a_0 + a_1\text{MCR}_t + a_2\text{TVSTR}_t + a_3\text{TOVR}_t + a_4\text{ASI}_t + \varepsilon_t$$

Where,

GDP = Gross Domestic Product

MCR = Market Capitalization Ratio

TVSTR = Total Value of Share Traded Ratio

TOVR = Turn Over Ratio

ASI = All Share Index

$\varepsilon$  = The Error Term

From the above model,  $a_0$  is the constant.  $a_1, a_2, a_3, a_4$  are the coefficients of the independent variables measuring the impact of a unit change in the independent variable on the dependent variable (Economic growth). The sub-scripts  $t$  refers to the time period of observations which in the case of the present study is 1984 to 2015.

### A Priori Expectation

In the current analysis, it is desirable and important to state the expected signs of the independent variables based on established economic theory. As a result, the independent variables' a priori assumptions in this analysis are as follows.

**Stock Market Capitalization Ratio:** This is expected to have a positive relationship, i.e.,  $\alpha_1 > 0$ . This is because stock market capitalization measures the size of the stock market, and as highlighted by Levine and Zervos (1996) and Yartey (2008) is positively correlated with the ability to mobilize capital and diversify risk.

**Total Value of Share Traded Ratio:** This is expected to have a positive relationship, i.e.,  $\alpha_2 > 0$ . The total value traded ratio measures the organized trading of firm equity as a share of national output and therefore should positively reflect liquidity on an economy-wide basis.

**Turn Over Ratio:** This is expected to have a positive relationship, i.e.,  $\alpha_3 > 0$ . This is because high turnover ratio is often used as an indication of low transaction cost in the stock market. **All Share Index:** This is expected to have a positive relationship, i.e.,  $\alpha_4 > 0$ . This is because all share indexes are a market index reflecting a total picture of the behavior of the common share quoted.



### **Measurement of Variables**

**Gross Domestic Product (GDP):** This is the amount of money a country earns from its economic activities. It is turned into logs.

**Market Capitalization Ratio:** This is the amount of money in the stock market relative to the amount of money in the economy. It assesses the scale of the stock market as well as the stock market's contribution to economic development.

**Total Value of Share Traded Ratio:** This measure equals total value of shares traded on the stock market exchange divided by GDP. It measures liquidity of the stock market.

**Turn Over Ratio:** Turnover measures trading relative to the size of the stock market. Turnover ratio is used as an index of comparison for market liquidity rating and level of transaction costs. This ratio equals the total value of shares traded on the stock market divided by market capitalization.

**All Share Index:** All share index measures overall direction of the market and the scope of its movement. It is a series of number which shows the changing average value of the share price of all companies on a stock exchange.

### **Method of Data Analysis**

The present study consists of two objectives all of which were achieved by analyzing data using EViews 7.1.

Granger Causality was used to accomplish the study's first goal, which was to investigate the causality between stock market development indicators and economic growth. Granger causality is a measure of the causal relationship between two variables, in this case each individual stock market development indicator and economic growth. Granger causality explores the relationship between the stock market capitalization ratio and the log of GDP (economic growth), the stock turnover ratio and the log of GDP (economic growth), and the total value of shares exchanged ratio and the log of GDP (economic growth) (economic growth). The effect of stock market development on economic growth was analyzed using the Enhanced Dickey fuller Unit root test, Johansen cointegration, and error correction model in the study's second objective. The error correction model captures the long run relationship between stock market development and economic growth, all of which are long run variables by their very nature. Regression was used to estimate our model's error correction model, as defined in the equation above. However, prior to performing estimation of the error correction model, Augmented Dickey Fuller unit root test and Johansen cointegration test were performed on variables employed in the study.

Further, post-estimation diagnostic tests as a test of serial correlation, and F-test for the joint significance of independent variables were performed after model estimation.

**Source of Data**

Secondary data was used in this analysis. These are time-series data that span the years 1984 to 2015. The Central Bank of Nigeria statistical bulletin for 2015 presented data on stock turnover ratio, stock market capitalization ratio, total value of shares exchanged ratio, all share index, and GDP.

**Data Analysis and Presentation of Results**

**Variable Descriptive Statistics**

Descriptive statistics are those that quantitatively define or summarize the characteristics of a set of data. Descriptive statistics summarize the study by highlighting key statistics about the data distribution that can be used to investigate the properties of the data used in data analysis. Table 1 shows the descriptive statistics of the dependent variable and independent variables used in our approximate model

Descriptive statistics	GDP (Billions of Naira)	Market Capitalization Ratio (in Decimals)	Turnover Ratio (in Decimals)	Total Value of Stocks Traded Ratio (in Decimals)	All Share Index
Mean	32226.04	0.078648	0.062572	0.006955	14218.83
Median	23068.85	0.016717	0.058070	0.000908	7169.883
Maximum	69023.93	0.307105	0.175588	0.037186	50424.70
Minimum	13779.26	0.000399	0.010193	1.17E-05	100.0000
Std.Dev.	17359.73	0.103279	0.036937	0.010394	14218.83
Observations	32	32	32	32	32

From Table 1 above, the mean GDP of Nigeria for the period of 1984–2015 was N32226.04 billion. The median value of GDP was N23068.85 billion, and the maximum value of GDP was N69023.93 billion. The mean value of Nigeria's GDP is substantially high at N32226.04 billion, and this implies that Nigeria has experienced high growth over the years on average and is a rapidly growing economy. Such high economic growth may be further promoted if the Nigerian stock market plays a central role in the growth of the Nigerian economy by enabling efficient allocation of resources. Market capitalization ratios, stock turnover ratios, total value of stocks exchanged ratios, and all share indexes are stock market metrics. From 1984 to 2015, the average market capitalization ratio was 0.0786, with a median value of 0.307. However, for a country like Nigeria, where an established stock market is important for economic development, the mean value of the market capitalization ratio is low. This indicates that Nigeria's stock market is relatively small and contributes very little to GDP, which is concerning for the stock market's growth. The stock market turnover ratio, on the other hand, averaged 0.0626 and peaked at 0.176. The stock market turnover ratio, like

market capitalization, is an exceptionally low indicator of stock market growth in Nigeria. Furthermore, the Total Value of Stocks Traded ratio, which averaged 0.006 and peaked at 0.0372, is exceptionally low and is the lowest on average of all stock market growth metrics in Nigeria. This low ratio of the total value of stocks traded corresponds to a country with weak stock market growth. Low liquidity, insufficient foreign participation on the stock market, inadequate availability of a variety of financial market instruments, weak regulation, and so on are all characteristics of poor stock market growth, some of which may be evident in the Nigerian stock exchange and have contributed to its low level of development. Finally, the all-share index, which is currently trading at N14218.83 on average with a high of N50424.00, indicates a substantial increase in the market price of the average stock on the Nigerian stock exchange. This is more so when we consider the 47 minimum of N100, which was realized in 1984. However, the mean value of the All-Share Index of N14218.83 is still substantially low for a stock market seeking to be developed and comparable with stock markets in the developed world. The low all-share indexes, though, may reflect the challenges of the Nigerian economy over the years, which, in adversely affecting the all-share index, acts as a signal for stock market participants who may be discouraged by low stock prices. A low average stock price is consistent with a poorly developed stock market.

**Error Correction Model Regression Results**

Error correction model regression results from estimating our model specified in equation (9) with all variables in their stationary forms (i.e. I(1)) and given evidence of cointegration from Johansen cointegration test results are as presented in Table 5 below. (Extensive E-Views output is presented in Appendix Table A7).

**Table 2. Error Correction Model Regression Results**

<b>Dependent Variable</b>	<b><math>\Delta(\text{LogGDP})</math></b>
<b>C</b>	-0.0352 (0.0186)
<b>ECM(-1)</b>	-1.6769*** (0.4352)
<b><math>\Delta(\text{MCR})</math></b>	-0.3968 (0.2238)
<b><math>\Delta(\text{MCR}(-1))</math></b>	-0.1860 (0.2097)
<b><math>\Delta(\text{TOVR})</math></b>	0.0724 (0.2481)

<b><math>\Delta(\text{TOVR}(-1))</math></b>	-0.2348
	(0.2132)
<b><math>\Delta(\text{LGDP}(-1))</math></b>	1.6819***
	(0.3526)
<b><math>\Delta(\text{ASI})</math></b>	0.00000346**
	(0.00000167)
<b>R-squared</b>	0.5374
<b>Adjusted R-squared</b>	0.3902
<b>Durbin Watson</b>	1.8700
<b>F-Statistic</b>	3.6519
<b>No. of Observations</b>	32

Table 2 represent significance of standard errors at 5% and 1% levels of significance. Source: Author's Computation (2017)

Table 2 above is the error correction model ordinary least squares regression results from estimating our model specified in equation (9). The R-squared is 0.53. This means that 53% of changes in economic growth are explained by changes in explanatory variables. The adjusted R-squared which provides a better indication of goodness of fit than the R-Squared is however much lower at 0.39. The low value of adjusted r-squared therefore indicates that some important variables contributing to economic growth have been excluded from the estimated model. However, the excluded variables are not central to the arguments of the present study and so may be discarded without much implication for the validity of the regression results. Further the F-statistic of 3.6519 which is a test of joint statistical significance of the coefficients of the model is statistically significant at the 5% level of statistical significance implying that the coefficients of explanatory variables are jointly statistically significant. Finally, the Durbin –Watson Statistics of 1.87 which is approximately 2 is indicative of the absence of serial correlation in residuals of our model. Therefore, based on R-squared, F-statistic, and Durbin Watson which are all acceptable, we can conclude that we have estimated a good model and can therefore proceed to interpret our error correction model regression results.

#### **Interpretation of Error Correction Model Regression Results**

The error correction model term captures the long-run equilibrium of the model to be estimated. Evidence from the Error Correction Model results as in Table 2 above, indicates that there exists a long run relationship between economic growth and the independent variables in our model. The coefficient of the lag of the error correction model term which by nature is negative is statistically significant at the 1% level in our

model and indicates that 1.6769 percent of the disequilibrium in the previous year would be corrected in the current year. The coefficient of the change in Market Capitalization Ratio,  $\Delta(\text{MCR})$  is -0.3968 and is negative and statistically insignificant at all levels of statistical significance. The coefficient of the change in Market Capitalization Ratio,  $\Delta(\text{MCR})$  means that a 1 unit change in Market Capitalization Ratio contributes negatively to a change in economic growth of the Nigerian economy by 0.3968 percent. However, change in Market Capitalization Ratio, is not important in explaining changes in economic growth of Nigeria. Further, the coefficient of the one period lagged change in Market Capitalization Ratio,  $\Delta(\text{MCR}(-1))$  is -0.1860 and is negative and statistically insignificant at all levels of statistical significance. The coefficient of the one period lagged change in Market Capitalization Ratio,  $\Delta(\text{MCR}(-1))$  means that a 1 unit change in one period lagged Market Capitalization Ratio contributes negatively to a change in present period economic growth of the Nigerian economy by 0.1860 percent. The results suggest that changes in economic growth responds to changes in stock market capitalization with a time lag. However, change in one period lagged Market Capitalization Ratio, is not important in explaining changes in present period economic growth of Nigeria. The coefficient of the change in Turnover Ratio,  $\Delta(\text{TOVR})$  is 0.0724 and is positive and statistically insignificant at all levels of statistical significance. The coefficient of the change in Turnover Ratio means that a 1 unit change in turnover Ratio contributes positively to change in economic growth of the Nigerian economy by 0.0724 percent. However, change in Turnover ratio is not important in explaining changes in economic growth of Nigeria. Further, the coefficient of the one period lagged change in Turnover Ratio,  $\Delta(\text{TOVR}(-1))$  is -0.2348 and is negative and statistically insignificant at all levels of statistical significance. The coefficient of the one period lagged change in Turn Over Ratio,  $\Delta(\text{TOVR}(-1))$  means that a 1 unit change in one period lagged Turnover Ratio contributes negatively to a change in present period economic growth of the Nigerian economy by 0.2348 percent. However, change in one period lagged Turnover Ratio, is not important in explaining changes in present period economic growth of Nigeria. The coefficient of the change in one period lagged economic growth,  $\Delta(\text{LGDP}(-1))$  is 1.6819 and is positive and statistically significant at the 1% level of statistical significance. The coefficient of the change in one period lagged economic growth,  $\Delta(\text{LGDP}(-1))$ , means that a 1 unit change in change in one period lagged economic growth contributes positively to a change in present period economic growth of the Nigerian economy by 1.6819 percent. Change in one period lagged economic growth is important in explaining changes in present period economic growth of Nigeria. This may be so as lagged economic growth results in a boost to present period economic growth as previous period economic growth is gainfully used to promote further future economic growth. Finally, the coefficient of the change in All Share Index,  $\Delta(\text{ASI})$  is 0.00000346 and is positive and statistically significant at the 5% level of statistical significance. The coefficient of the change in all share index means that a 1

unit change in all share index contributes positively to a change in economic growth of the Nigerian economy by 0.00000346 percent. Change in all share index is important in explaining changes in economic growth of Nigeria. This may be so as a rise in the share price is indicative of a positive signal to the market of positive prospects for the market which attracts savers to purchase financial instruments in the market and consequently economic growth results as funds are made available on the stock market for investors to borrow for investment and the investors borrow such funds for use in profitable projects.

### **Discussion of Regression Results**

Based on the interpretation of the regression results of error correction model estimation, we observe that while the present-period market capitalization ratio and its lag are negative and insignificant, the turnover ratio is positive and insignificant, and the lag of the turnover 57 ratio is negative and insignificant. Thus, all measures of stock market development are insignificant for Nigeria's economic growth. The findings of the negative but insignificant impact of market capitalization and its lag on Nigeria's economic growth reflect the low level of development of the Nigerian stock market. Evident weaknesses exist in the Nigerian stock market that have hindered its development, amongst which are the weak quality of institutions, which include regulation and the rule of law. Due to weak regulation, inefficient suppliers of credit are prevalent in the Nigerian stock market, and weak stock market regulation as well as monitoring prevent efficient credit suppliers from taking part in the market, consequently affecting competition that should result in developed stock markets where regulation and monitoring are tight and therefore adversely affecting Nigeria's economic growth. Studies in support of our findings include those of Wang and Ajit (2015). With regards to turnover ratio, which we find to be positive and insignificant, and its lag, which is negative and insignificant, our findings suggest a positive but insignificant impact of stock market liquidity as measured by turnover ratio on economic growth. Increased stock market liquidity is important for a highly developed stock market, and it is this liquidity characteristic that differentiates developed country stock markets from those of developing countries such as Nigeria, where stock markets are highly illiquid. Liquid capital markets, as highlighted by Acquah-Sam and Salami (2014), make investments less risky and more attractive in that they allow savers to acquire assets and be able to sell them quickly and at lower costs if they need access to their savings or want to diversify their portfolios. Therefore, the liquidity of the Nigerian stock exchange promotes the development of the Nigerian stock market and enables it to contribute positively to economic growth. 58 Thus, taking the results regarding stock market indicators together, the results highlight that in examining stock market development, various dimensions of stock market development need to be considered in exploring the impact of stock market development on economic growth. Further, there is a need to consider the long-term

relationship between stock market development and economic growth, and hence the cointegration and error correction model employed in the present study is a better method than the ordinary least squares regression method as popularly employed by previous research in examining stock market development and economic growth. While the finding of a negative impact of stock market development, as measured by market capitalization ratio, on economic growth appears not to be popular in the literature, our results find support from Acquah-sam and Salami (2004) that some studies have reported negative effects of capital markets on economic growth in some developing nations, despite its expected positive effect on growth and development. The present study, however, has successfully addressed the weakness of previous studies that suggest that stock market development in Nigeria boosts economic growth, such as Aigbovo and Izekor (2015), which employed ordinary least squares regression, which we view as an inappropriate methodology and therefore renders the findings of such studies invalid. As highlighted by Yartey and Adjasi (2007), policy options will have to be explored by the Nigerian government for promoting the development of the Nigerian stock market through all dimensions, especially that of boosting its liquidity. It may well be the case that further financial liberalization reforms may need to be explored, as past reforms appear to have had minimal effect on the development of the Nigerian stock market. Further, it might be necessary for the Nigerian government to adopt policy options that will shield the Nigerian stock market from the adverse effects of global macroeconomic factors that might affect stock market development efforts.

## **Summary, Conclusion and Policy Recommendations**

### **Summary of Findings**

The current study looks at Nigeria's stock market creation and economic growth from 1984 to 2015. To achieve the study's goals, the researchers used Granger causality, cointegration, and an error correction model. The following are the study's findings:

1. There is no reverse causality found between stock market development metrics such as stock market capitalization ratio, turnover ratio, and total value of shares exchanged ratio and economic growth.
2. The results of the augmented Dickey Fuller unit root test showed that the all-share index, stock market capitalization ratio, turnover ratio, and economic growth ratio were all of order 1, while the total value of shares traded ratio was of order zero.
3. Economic growth is affected by shifts in the all-share index in a constructive and important way.
4. Changes in the stock market capitalization ratio, as well as their lag, have a negative but minor effect on changes in economic growth.
5. The Johansen cointegration test showed that the all-share index, stock market capitalization ratio, turnover ratio, and economic growth all have four

cointegrating relationships.

6. Improvements in lagged GDP have a positive and important effect on current-period economic development.
7. The effects of the error correction model, as seen in Table 5, suggest that economic growth and the independent variables in our model have a long-term relationship.
8. The improvement in the turnover ratio has a positive but insignificant effect on changes in economic development, while the lag has a negative but insignificant impact.

### **Conclusion**

The aim of this research was to investigate the development of Nigeria's stock market and economic growth from 1984 to 2015. The research investigated the relationship between stock market development indicators and economic growth as well as the influence of stock market development on economic growth. Although causality was discovered to be one-way from economic growth to stock market development, stock market development was found to have a negative effect on economic growth when data was analyzed using cointegration and an error correction model. The results of the cointegration and error correction model show that the stock market development indicator of stock market size has a negative effect on Nigerian economic growth due to weak institutions and inefficient market participant activities, while improved liquidity as measured by turnover ratio has a positive but negligible impact on economic growth. If the establishment of the Nigerian stock exchange is to improve Nigeria's economic growth by making the stock exchange a major source of funds for businesses, more work must be done. The Nigerian government's policy options should aim to fix flaws in the stock market's operations, especially in terms of institution efficiency, quality, and liquidity.

### **Policy Recommendations**

Based on the findings of the present study, the following recommendations are made:

1. Asset Management Corporation of Nigeria (AMCON) and the Ministry of Finance Incorporated were interfered with by the federal government.
2. More indigenous quotable companies should be encouraged to pursue listing by providing tax breaks, rebates, and other incentives.
3. Stockbroking companies should be encouraged to combine or be bought outright.
4. The Securities and Exchange Commission's (SEC) manpower and processes should be improved to make the stock market more competitive and minimize volatile results. This should allow the organization to strengthen its capital market oversight role and foster growth and improvement in its performance.



5. Nigeria Securities and Exchange Commission to facilitate the growth of the market, restore the confidence of stock market participants, and safeguard the interests of shareholders by checking the sharp practices of market operators. Improved quality of institutions, which include regulatory quality, rule of law, and reduction in corruption, will boost participation on the Nigerian stock exchange and thus promote competition, which will promote stock market development.

#### **Areas for Further Study**

Future researchers can extend the current study in several ways now that it has been completed:

1. The study could investigate the effect of foreign direct investment on the Nigerian stock market's growth.
2. The analysis may be repeated to include a panel of Sub-Saharan African countries.

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## Chapter 7

# Examining the Marketing and Contribution of Nigeria Hospitality Industry: Strategy for Developing African Rural Economy

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### Abstract

**I**t has been observed that the massive depreciation of the national currency has a significant impact on Nigeria's economy. The goal of this article is to look at how the marketing of Nigerian hospitality businesses contributes to the country's economic development. Secondary data, mostly literature, were employed in the study. Because the hospitality business is nearly totally reliant on the economy, the findings demonstrated that it is extremely sensitive to economic uncertainty and volatility. The research found and advised that, in order for the hotel sector to stay afloat and be important to the Nigerian economy, the government must fulfill its obligations by providing the required infrastructure, bolstering security, and offering incentives to industry investors for economic development.

**Keywords:** Marketing, Hospitality industry, African Rural Economy

### Background to the Study

It is on record that, at all levels, the hotel business is undeniably the lifeblood of tourism. On an annual basis, the United Nations World Tourism Organization (UNWTO) certifies that hospitality services account for between 70% and 75% of international visitor spending (Akpabio, 2007). This emphasizes the sector's strategic significance in the tourist industry. The number of hotels in the United States of America is believed to be in the millions. However, just approximately 12 globally branded hotels exist in Nigeria (Amadi, 2008a). Due to the country's previous

reputation as a high-risk investment destination, particularly in capital-intensive industries like hotels, where investors must wait a long time to recoup their investment, Nigeria has a scarcity of globally branded hotels. Due to the high cost of land and the high financing rates in Nigerian banks, hotel investors seldom consider Nigeria. Purchasing land and building a hotel in the United States is much easier and less expensive than doing so in Nigeria (Amadi, 2008). In the United States, the lending rate is around 6%, with a 25-year mortgage that the investor must repay. However, depending on who is borrowing and for what reason, the interest rate in Nigeria might reach 25%. Furthermore, Nigerian banks will only offer the investor three years to repay their investment. People who are away from home, whether for a long or short amount of time, are served by the hospitality business. These services might differ depending on the individual's requirements as well as the needs of the organization providing them (Baker et al., 2000). Many countries around the globe rely on the hotel sector for economic prosperity. In certain countries, such as Fiji, the Caribbean, and Hong Kong, it is one of the primary sources of foreign exchange (Baker et al., 2000). The industry is important because it contributes to an economy's growth by providing a large number of job opportunities for people, funding a large portion of a country's gross domestic product, thereby helping to raise national income, and earning foreign currencies through goods and services provided to foreign visitors, thereby improving the balance of payments (Baker et al., 2005).

The hotel business in Nigeria is beset with difficulties. High hotel prices and the sluggish rate at which tourist destinations in various sections of the country are expanding are two of them (Akpabio, 2007). Despite these flaws, the Nigerian hospitality industry contributed N680.1 million to the economy in 1980, N492.4 million in 1984 (using 1984 constant basic prices for both periods), N477.9 million in 1990, N591.9 million in 2000 (CBN, 2003), N1950.0 million in 2004, and N2,390.0 million in 2006 (using 1990 constant basic prices) (CBN, 2006). Any industry study must consider the setting in which it operates at some point. In further detail, it's critical to look at the industry's interaction with the government of the country where it operates electricity supply (Amadi, 2008a), inadequate services (Nwosu, 2008), and unscrupulous business practices (Awoseyin, 2007). Many of the industry's orientations will be determined by government policies, which will also have an impact on the industry's connection with other industries in the country (Gale and Odgers, 1990), as well as the overall economy. The Nigerian economy will be examined throughout time in light of the aforementioned factors for economic development.

### **Statement of the Problem**

As a strategy to develop the country, In the early 1980s, the Nigerian economy was heavily reliant on the international economic system, and as a result, it has remained

unstable throughout time. Unfortunately, the situation deteriorated (Koleoso, 2007). The economy had been severely harmed by the military-imposed Structural Adjustment Programme, which resulted in a huge depreciation of the national currency, the Naira. This is compounded by the volatility in crude oil prices on the international market, which is the country's primary source of foreign currency. The national economy was also harmed by corruption at all levels, high and low. Despite these factors, GDP fell from N68,246.2 million in 1980 to N62,474.2 million in 1984 (using 1984 constant basic prices for both periods), but then rose to N92,238.5 million in 1990, N121,207.8 million in 2000, N527,580.0 million in 2004, and N593,570 million in 2006 (using 1990 constant basic prices).

### **Objective of the Study**

To examine the marketing and contribution of Nigeria hospitality industry for economic growth.

### **Research Methodology**

The study used secondary source of data where various literature such as textbooks, journals and other materials were consulted on the topic.

### **Review of Related Literature**

#### **Marketing Activity and Hospitality Industry**

The steady economy in the United States is the reason for the market's continual expansion. The economy is experiencing a once-in-a-lifetime combination of low inflation, low unemployment, and consistent GDP growth. Despite concerns about overdevelopment and a new slowdown in the hospitality sector, virtually all forecasters expect hotel profitability to increase in the market. The profitability of the sector will be considerably boosted by ongoing productivity increases, continuous demand growth, and moderate supply (Su, 2008). Due to the increased demand for such items and services, an aggressive hospitality sector would be active in pricing them. According to PKF Consulting (1997), demand and supply growth will be led by the mid-price and economy categories, with leisure travelers providing the majority of demand growth impetus in the next few years. The profitability of the industry is also boosted by increased operational efficiency. Since 1991, the number of staff per 100 rooms in the United States has dropped dramatically (Ader & LaFleur, 1997). The low guest-to-employee ratio substantially decreased the industry's economic break-even point, despite the fact that this aspect had little to do with occupancy or average daily rate increases (Ader & LaFleur, 1997).

#### **Tourism and Global Economy**

When an economy emerges from a slump, real estate investments surge. According to a 1995 study by Coopers and Lybrands, new room openings increased by 45 percent

from 1995 to 92,500 in 1996. In 1996, the US economy emerged from a slump. According to Smith Travel Research, one out of every 31 hospitality buildings (with 20 rooms or more) was developed in the United States in 1996, compared to one out of every 77 in 1992. (Su, 2008). The fact that hotel corporations went out to buy instead of building hotels when they couldn't use all of their newly earned cash to develop hotels is intriguing. According to a May 1996 article in Hospitality Magazine, between 1991 and 1995, 2,784 hospitality properties were sold in the United States, with 378 of them selling for more than \$10 million apiece (Su, 2008). The hospitality business, it may be said, has been struck the hardest by the present global financial crisis. This is due to the fact that entertainment, leisure, and tourism are all susceptible to economic instability and unpredictability (Amadi, 2008b). The majority of tourist and travel activities include optional costs. People prefer to save money during economic downturns to meet basic requirements such as food, shelter, and family needs. This does not, however, imply that leisure and tourism will go extinct. People did not cease traveling throughout practically every era of economic crisis or global tourist concern resulting from events such as the 9/11 attack on the United States, but they did it in a different way than they did during periods of economic growth. Businesses in the tourism and hospitality industries that can adapt to changing conditions can withstand economic downturns (Amadi, 2008b). According to Amadi (2008b), locations with "favorable" exchange rates may benefit from the present financial crunch. Surges in the value of the US dollar and the euro, ironically, may encourage Americans, Europeans, and Japanese to travel internationally again. Outbound travel from China and India is expanding slowly, but it will continue to increase as long as these economies thrive. As individuals opt to stay closer to home, there is likely to be an increase in domestic or short-haul foreign travel (Amadi, 2008). What impact has the global financial crisis had on the hotel industry and tourism in Nigeria, both internationally and locally?

According to Ward (2008), the hotel industry in Nigeria is having very little impact. However, there has been a loss of trust in the whole banking system in Europe, the United States, and elsewhere, resulting in a reduction in lending to both businesses and individuals. There has been a significant drop in company activity and consumer expenditure as a result of the decrease in housing values. As corporate travel slows and discretionary leisure travel expenditure falls, this has an impact on the hotel sector. Ward, on the other hand, predicts a spillover impact in 2009. (2008). This is because decreasing demand for Africa's oil and minerals from China and elsewhere affects certain nations' income, such as Nigeria, where lower oil prices (due to lower demand largely in the United States and China) have a direct impact on government revenue and spending. As Ward (2008a) points out, there will be a drop in foreign tourists elsewhere in Africa, notably in countries like Kenya, Tanzania, South Africa, and Gambia, where international tourism generates a substantial portion of their revenue. As employees are laid off in rich nations and no longer have the means to



send money home, the volume of remittances from the Diaspora will undoubtedly decrease in Ghana and other countries. According to Nwosu (2008a), business travel and leisure travel are both reduced when individuals tighten their belts during the economic downturn. The recommended method of lodging is on a budget. Even if they aren't "recommended," Travelodge and Premier Inn are nonetheless in high demand in the United Kingdom. The knock-on effect has a significant impact on inbound business travel in Nigeria, which accounts for the majority of hotel visits. Except that big oil, which is the economy's major engine, has reaped significant benefits from the high oil price, there will be less spending power. Budget flights and motels may take the lead in the future, and demand for luxury lodging may decline until another economic boom kicks off a new consumer spending cycle (Nwosu, 2008). According to Nwosu (2008b), large spenders may cut back during the economic downturn, but the hotel sector will continue to thrive despite the global economic downturn because of the vast range of services available that cater to almost all consumer spending capabilities.

### **Research Findings**

The hotel industry's contributions were examined in both developed and emerging economies. Indeed, the hotel business provides the majority of a country's foreign exchange. Privately owned hotels make up the majority of hotels in Nigeria. The absence of clear government policies is one factor contributing to the slow growth of the hotel business (Nwosu, 2008). Coupled with the country's overall instability, essential infrastructure facilities are missing. Because the hospitality industry depends almost totally on the economy, the hotel business is extremely exposed to economic uncertainty and volatility. People are more likely to save money during economic downturns in order to fund basic requirements like food, shelter, and family needs. Businesses in the tourism and hospitality industries that can adjust to changing conditions will survive the economic crisis. The expansion of the hospitality business will be aided by a stable economy with a rare combination of low inflation and low unemployment. When an economy emerges from a downturn, real estate investment grows significantly (the hospitality industry included). Other factors that are directly or indirectly impacted by the national economy, such as the number of hotels, hotel charges, sales earnings, the number of people who visit hotels, inflation rates, unemployment rates, bank lending rates, tax rates, and so on, affect the hospitality business.

### **Conclusion and Recommendations**

The fact that certain hospitality professionals engage in unethical methods does not improve things. Fortunately, a number of multinational hotel chains have been granted licenses in order to raise the bar. To keep the hospitality business afloat and relevant to the Nigerian economy, the government must fulfill its obligations by

building the required infrastructure, increasing security, and offering incentives to investors in the industry.

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## Chapter 8

### Effect of Ownership Structure on Stock Returns of Listed Consumer Goods Companies in Nigeria

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#### Abstract

**T**his study examined the effect of ownership structure on stock returns of quoted consumer goods companies in Nigeria. The study considered the combined effect of ownership concentration, managerial ownership, and institutional ownership on stock returns. The ex post facto research method was adopted. The population of the study comprised all twenty-three (23) listed consumer goods firms on the Nigerian Stock Exchange as of 2020. The study used purposive sampling techniques to obtain a sample size of sixteen (16) firms listed in the consumer goods sector. This number was arrived at using the criteria that a company must have complete information for the number of years under consideration (2011–2020). Data were collected from the annual reports of the sampled companies for a period of ten (10) years, from 2011 to 2020. The study employed the multiple regression technique as the procedure of analysis with the aid of the STATA version. This study is panel in nature (that is, cross-sectional time series data), and in order to check for endogeneity, the study used the Hausman specification test and the Lagrangian multiplier effect. Additional robustness tests adopted in this research include the test for multicollinearity using the variance inflation factor (VIF) and the Breusch-Pagan test for heteroscedasticity to check for the fitness of the model and reliability of findings. The result of the pooled independent OLS as specified by the Lagrangian multiplier effect indicated that ownership concentration and institutional ownership have a significant effect on stock returns, while managerial ownership was found to have an insignificant effect on stock

*returns of quoted consumer goods companies in Nigeria. From the findings, the study concluded that ownership structure is one of the monitoring mechanisms deployed to curtail managerial opportunistic behavior likely to increase the volatility of stock returns. Based on the findings and conclusion, the study recommended that consumer goods companies encourage higher institutional shareholding since institutional ownership exerts stronger external control over the company and encourages managers to increase dividend payments.*

**Keywords:** *Ownership structure, Stock returns, Consumer goods, Companies, Nigeria*

### **Background to the Study**

For the need to develop the African rural economy globally, ownership structure has been perceived to have an impact on the information environment as well as the management efficiency of listed companies, and when viewed from a micro perspective, ownership structure is an important factor that has an impact on stock returns. Ownership structure helps to improve the informativeness of stock prices, enhances the efficiency of corporate governance, and increases the quality of published corporate information (He, Hermalin, and Weisbach, 2013; He and Shen, 2014); enables the problem of representatives in the operation of listed companies to be solved and limits the information asymmetry on the stock market (Gul, Malmendier, and Tate, 2010; Kang and Stulz, 1997; Jiang and Kim, 2004); reduces the cost of information gathering, lowers the transaction costs for investors, and thereby decreases the capital costs for listed companies (Fernandes and Ferreira, 2009; Healy, 1985); Ownership structure can explain various degrees of changes in stock returns. In addition, the differences in an institutional environment, an information environment, and the protection of investors' interests among different nations will affect the relationship between ownership structure and stock returns and can make a difference in the relationship between ownership structure and stock returns among different countries. Various approaches have been adopted for the corporate ownership structure. According to the company ownership and control approach, the ownership structure consists of the ratio of equity owned and held by internal members and external investors outside the company. If the equity concentration approach is taken, the ownership structure is composed of the ratio of equity held by the major and dispersed shareholders of the company (Shleifer and Vishny, 1997). Moreover, the ownership structure is also approached in other aspects, such as: according to the characteristics of the investor and the origin of the investor, the

ownership structure includes the ownership ratio of foreign investors and the ownership ratio of domestic investors; In the organizational form, the ownership structure includes the ownership ratio of institutional investors and the ownership ratio of individual investors; according to the level of state holdings, the ownership structure consists of the state ownership rate and the private ownership rate. In this study, ownership structure is viewed from an institutional, concentration, and managerial perspective.

The ownership composition of a firm is considered to have a strong influence on stock returns. For instance, institutional ownership has an effect on stock returns because the higher the institutional ownership, the stronger the external control of the company, which can encourage managers to increase dividend payments. Again, in an early study by Demsetz and Lehn (1985), they realized with empirical evidence that ownership concentration is normally associated with high stock price volatility. The closed corporate governance system associated with high ownership concentration means that outside investors have little information and there is a high probability of insider trading. Again, managerial ownership refers to the percentage of equity owned by insiders, who are defined as the officers and directors of a firm. Managerial ownership may affect firm performance positively, as it is expected that directors will make good decisions because they partly own the firm, hence their interest in the decisions made. The stock price should thus increase as more shares are held by directors. Managerial ownership reduces agency costs for a firm because there is no longer a need for an incentive system to lure the management into performing well. Thus, such incentives as bonuses pegged on profit achievement can easily be eliminated because, at the end of the day, the directors will share in the dividends.

Empirically, for some inexplicable reasons, very little has been written on the equity ownership structure and stock returns of Nigerian quoted companies, in spite of the rapid growth of Nigerian firms after independence. Previous studies have centered more on exploring the nature and extent of the relationship among mature and more developed emerging markets, with little or no emphasis on firms domiciled in an African country like Nigeria. Also, none of these studies has explicitly examined them jointly with Nigeria as the focal point. A majority of the studies that have sought to evaluate the link between ownership structure and stock return generated results that, at best, could be regarded as mixed. For instance, some studies reveal that there is no significant relationship (Uwabanmwun & Obayagbona, 2012; Umar & Musa, 2013; Olowoniyi & Ojenike, 2013; & Kazeem, 2015). In contrast, however, some other studies reveal a significant relationship between ownership structure and stock returns (Bala & Idris, 2015; Akwe, Garba, & Dang, 2018; Nyikyaa, 2022).

This study attempts to upgrade the current corpus of knowledge regarding equity ownership structure and stock returns in an emerging market, with the Nigerian capital market as a special focal point of interest and specifically the Nigerian consumer goods sector.

The broad objective of this study is to examine the effect of ownership structure on stock returns of listed consumer goods companies in Nigeria. The specific objectives are to:

- i. Identify the effect of ownership concentration on stock returns of quoted consumer goods companies in Nigeria
- ii. Determine the effect of managerial ownership on stock returns of quoted consumer goods companies in Nigeria
- iii. Examine the effect of institutional ownership on stock returns of quoted consumer goods companies in Nigeria

#### **Statement of Hypotheses**

**Ho1:** Ownership concentration has no significant effect on stock returns of quoted consumer goods companies in Nigeria

**Ho2:** Managerial Ownership has no significant effect on stock returns of quoted consumer goods companies in Nigeria

**Ho3:** Institutional ownership has no significant effect on stock returns of quoted consumer goods companies in Nigeria

#### **Literature Review**

##### **Ownership Attributes**

According to Johnson, Daily, and Ellstrand (2000), a mechanism to control management is concentrated ownership. In atomistic markets, individual shareholders do not have strong incentives to monitor management due to a lack of monitoring expertise, poor shareholder protection, and the free-rider problem generated by costly monitoring. The problem of free riding that occurs due to diffuse shareholders may be less acute in the case of large, concentrated ownership. Large shareholders are also more likely to be well informed and to make better use of their voting rights. However, controlling shareholders, conditional on the regulatory and legal environment, may exploit their private benefits of control by diverting assets and profits out of the firm. Furthermore, large equity owners may stimulate the firm to undertake higher-risk activities since shareholders benefit on the upside while debt holders share the costs of failure. In some countries, notably in continental Europe, ownership of firms is very concentrated (Becht & Roell, 1999). Compared to European financial firms, US firms tend to have higher institutional ownership and are less likely to have a large shareholder. However, Adams and Mehran (2003) reported that, in the

US, institutional ownership in banks is significantly lower than in non-financial firms.

### **Managerial Ownership**

Managerial ownership signifies the interest of managers in the equity shareholding of a firm. The motive behind the rise of this corporate governance variable is rooted in agency theory, which assumes that managers' equity holdings inspire them to act in a way that maximizes the value of the firm. Warfield et al. (1995) suggest that the interests of both shareholders and management start to converge as the management holds a portion of the firm's equity ownership. This implies that the need for intense monitoring by the board should decrease (Jensen & Meckling, 1976). Rudiger and Rene (2007), in their study, reviewed theories of the determining factor of managerial ownership and their insinuations for the relation between firm value and managerial ownership. They deliberated on three notions: the agency notion, the contracting notion, and the managerial discretion notion. The agency idea predicts that low managerial ownership indicates poor alignment of interests among managers and shareholders (Jensen & Meckling, 1976). This insider with low equity ownership manages earnings for better compensation and avoids debt covenants (Healy, 1985; Houlthausen, 1995). It is suggested that they will be more involved in the firm when they own a larger stake; thus, the need for outside monitoring will be reduced as long as the interests of insiders and outsiders converge. There are two views concerning managerial ownership. The convergence assumption states that managerial ownership will be seen as a monitoring device when they acquire some portion of the company equity; they will prevent managers' opportunistic behavior, and the magnitude of discretionary accruals is predicted to be negatively associated with insider ownership (Warfield et al., 1995). On the other hand, when there is little separation between managers and owners, management faces less pressure from capital markets to signal the firm's value to the market, and they pay less attention to the short-term financial report (Jensen, 1986; Klassen, 1997). Then highly invested managers are more likely to influence earnings since the lack of market discipline may lead managers to make accounting choices that are out of self-serving interest.

### **Ownership Concentration**

Ownership concentration is the number of large block holders in a firm (Thomsen & Pedersen, 2000). Usually, a stockholder who holds 5% or more of the company's equity is considered a major stockholder. The shareholding of an owner should be significant enough to provide for monitoring the actions of the management. The major shareholder can be an individual, a domestic foreign corporation, an institutional investor, or the state. Large block holders have a greater incentive to monitor management as the costs involved in monitoring are less than the benefits of large equity holdings in the firm. Ramsey and Blair (1993) pointed out that increased ownership concentration provides large block holders with sufficient incentives to



monitor managers. Demsetz and Lehn (1983) and Stiglitz (1985) found that large block holders have the incentive to bear the fixed cost of collecting information and to engage in monitoring mechanisms. In contrast, dispersed ownership leads to weaker management monitoring. In a situation where the shareholders hold less stock in a firm, the incentive to monitor management is low because the costs involved in monitoring outweigh the benefits to be derived. Therefore, Pedersen and Thomsen (1999), as cited in Wen (2010), defined ownership concentration as the share of the largest owner and were influenced by absolute risk and monitoring costs.

The composition of ownership in a firm is one of the main dimensions of corporate governance and is widely seen as a determining factor in ascertaining good corporate performance as well as ensuring qualitative financial reporting. The problem generated by concentrated ownership in the firm among managers and minority shareholders has been very difficult to mitigate within the agency problem. This was as a result of the tightness of ownership that allowed the self-interest behavior of managers to go internally unopposed by the board of directors, which gave room to the managers to determine how the company may be run and use the opportunistic behavior to expropriate minority shareholders' wealth. Ownership concentration refers to the spreading of the shares owned by a certain number of individuals or institutions; ownership mix, on the other hand, is related to certain institutions or groups, such as the government, private companies, or foreign partners among the shareholders (Claessens & Djankov, 1998). The role of ownership structure in the setting of concentrated ownership is to assess the cash flow contents with regards to the block holder's role from the perspective of diffused ownership. The accounting literature contains extensive research on how the agency problem between owners and managers affects earnings quality as well as the quality of accounting information for firms.

### **Institutional Ownership**

Institutional ownership is the ownership of shares by other organizations or institutions, such as insurance companies, banks, investment companies, and other organized owners. Institutional ownership is important in monitoring management because it encourages more optimal supervision. Jensen and Meckling (1976) claimed that institutional ownership has a very significant role in minimizing agency conflicts between managers and shareholders. The existence of institutional ownership is considered capable of being an effective monitoring device for any decision taken by the manager. The agency concept suggests that monitoring by institutional ownership can be an important governance mechanism. In fact, institutional investors can provide active monitoring that is difficult for smaller, more passive, or less-informed investors (Almazan, Hartzell, & Starks, 2005). Moreover, institutional investors have the opportunity, resources, and ability to monitor managers. Therefore, efficient

monitoring suggests that institutional ownership is associated with better monitoring of management activities, reducing the ability of managers to opportunistically manipulate earnings. The efficient monitoring assumption suggests an inverse relationship between a firm's earnings management activity and its institutional share ownership. In this vein, numerous studies have documented that institutional ownership prevents managers from opportunistically engaging in earnings management (Bange & De Bondt, 1998; Bushee, 1998; Chung et al., 2002; Cornett et al., 2008; Ebrahim, 2007; Koh, 2003).

Considering the importance of corporate governance in a firm's management, shareholders' active participation in monitoring management functions is important to ensure good corporate governance practices. To date, institutional investors' participation has emerged as an important force in corporate monitoring, serving as mechanisms to protect minority shareholders' interests. The significant increase in institutional investors' shareholdings has led to the formation of a large and powerful constituency that plays a significant role in corporate governance. Earnings information, as part of accounting information, provides investors with relevant information that would help them make correct asset pricing and investment decisions (Yuan & Jaing, 2008). The active monitoring hypothesis views institutional investors as long-term investors with ravenous incentives and motivations to closely monitor management action (Jung & Kown, 2002). However, some argue that institutional investors do not play an active role in monitoring management activities (Claessens & Fan, 2002; Porter, 1992). According to Duggal and Millar (1999), institutional investors are passive investors who are more likely to sell their holdings in poorly performing firms than to expend their resources on monitoring and improving their performance. Institutional investors may be incapable of exerting their monitoring role and may vote against managers because it may affect their business relationships with the firm. Accordingly, institutional investors may collude with management (Pound, 1988; Sundaramurthy, Rhoades, & Rechner, 2005). It is also argued that institutional owners are overly focused on short-term financial results, and as such, they are unable to monitor management (Bushee, 1998; Potter, 1992). So, there will be pressure on management to meet short-term earnings expectations. These arguments indicate that institutional investors may not limit managers' earnings management discretion and may increase managerial incentives to engage in earnings management.

### **Stock Returns**

In simple terms, "stock refers to a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. The percentage that an investor holds is reflected in the number of stocks the investor acquires from the company's stocks. Thus, the more shares that one acquires, the greater his or her

ownership rights in the company. When one holds a company's stock, it means that person is one of the many owners (shareholders) of the company and, as such, has a claim (albeit usually very small) to everything the company owns. An investor's share ownership is represented by a stock certificate. That is a piece of paper that serves as proof of one's ownership. According to Beni and Alexander (1999), ordinary stock simply represents an ownership interest in a corporation. In this modern age of business, however, such certificates are rarely given to the shareholder because the brokerage firms keep these records electronically, otherwise known as holding shares in street name. This is done in an attempt to make the stock easily tradable. Unlike in the past, where one had to physically take a share certificate to the broker in order to sell, now, with just a click on the mouse or even a phone call, stocks can easily be traded.

Return refers to the financial rewards gained as a result of making an investment. The nature of the return depends on the form of the investment. For instance, a company that invests in fixed assets and business operations expects returns in the form of profit, which may be measured on a before-interest, before-tax, or after-tax basis, and in the form of increased cash flows. An investor who buys ordinary shares expects returns in the form of dividend payments and capital gains (share price increases). Again, an investor who buys corporate bonds expects regular returns in the form of interest payments (Frimpong, 2010). Stock return is very important, as it is the main objective of investment in ordinary shares. Investors, both existing and potential ones, regard return as the fundamental reason for investing in a particular firm. Stock returns can be in the form of capital appreciation or depreciation (as obtained on the Nigerian stock exchange) plus dividends received, if any. Stock prices are important metrics for measuring stock market returns. Therefore, the value attached to them matters a lot to both existing and prospective investors in the stock market. There are several factors that influence stock price determination in the stock market. These factors range from accounting to non-accounting information. Stock market returns are the returns or gains that investors generate from the stock market (Lin & Zhan, 2011).

### **Empirical Review**

Afriyani (2018) analyzed the effect of managerial ownership structure, institutional ownership, and investment opportunities on the performance of stocks in the manufacturing companies listed on the Indonesia Stock Exchange. For this purpose, it is used to apply the analysis of managerial ownership, institutional ownership analysis, analysis of investment opportunities, stock performance analysis, multiple linear regression analysis, the classical assumption test (normality test, multicollinearity, autocorrelation test, and test heteroskedastisitas), and hypothesis testing. The results showed that the effect of managerial stock ownership structure had

a significant positive effect on the performance of stocks, but institutional ownership had a positive effect but not a significant increase in stock performance. While investment opportunities have a significant positive effect on the performance of the stock on the Indonesian stock exchange, Test results obtained by the finding that managerial ownership, institutional ownership, and investment opportunities jointly affect the performance of the company's shares are listed on the Manufacturing Indonesia Stock Exchange. This study was done in Indonesia, and given the differences in legal and governance stipulations between these countries, the findings of the previous studies cannot be used to make informed decisions. Amal and Ahmed (2017) investigated the impact of institutional ownership and ownership concentration on firm stock return performance using a panel data model. Our main ownership measures include the percentage of institutional ownership held by different institutions in a firm and the percentage of a firm's outstanding stocks held by the three largest block holders. We find that there is no significant relationship between either institutional ownership or ownership concentration and both ex post and ex ante returns. Also, it was found that there is a negative and significant relationship between institutional ownership represented by some institutions and ex post risk, while the relationship is negative and significant only between institutional ownership by employee associations and ex ante risk. Ownership concentration has no effect on ex post risk, but it has a positive and significant effect on ex ante risk. This current study used other corporate governance and firm attributes aside from ownership attributes, making it more robust for decision-making purposes.

Sayumwe and Amroune (2017) examined the relationship between board ownership and the market price per share in Canada. The study used a sample of 50 Canadian companies that are listed on the Toronto Stock Exchange. Data were collected from the annual report for a period of five years, from 2009 to 2013. A regression analysis technique was employed to analyze the effect of board ownership on market price per share. The result provided significant and positive support for the effect of board ownership on the market price per share. This study was done in Canada, which has a different investment climate than Nigeria; hence, the need for a domestic study. Amal (2014) studied the effect of institutional ownership and ownership concentration on firm stock returns and the financial performance of the listed companies on the Egyptian Stock Exchange. For this purpose, a panel data model is employed. The results from the analysis show that institutional ownership has no effect on ex post stock returns as well as ex ante stock returns. On the contrary, institutional ownership represented by top management and individuals has a negative and significant effect on stock volatility, while employee associations have a positive and significant effect. No significant effect is detected on ex ante risk except for employee associations, which have a negative and significant effect on ex ante risk. In addition, the results show that

institutional ownership has no effect on stock liquidity except for employee associations and individuals, which have a negative and significant effect on stock liquidity. Finally, the results show that institutional ownership represented by companies, holdings, and individuals has a negative effect on financial performance as represented by ROA and ROE. Also, institutional ownership has no effect on the debt-to-equity ratio except for banks, which have a negative and significant effect, and employee associations, which have a positive and significant effect. This study considered only ownership structure, while this current study looks at other corporate attributes, making it wider in scope.

### **Methodology**

This study adopted a descriptive ex post facto research method and a positivist research philosophy for the purpose of addressing the research problem. The population of the study comprised all twenty-three (23) listed consumer goods firms on the Nigerian Stock Exchange as of 2020. The study used purposive sampling techniques to obtain a sample size of sixteen (16) firms listed in the consumer goods sector. This number is arrived at using the criteria that a company must have complete information for the number of years under consideration (2011–2020). The study employed secondary sources for the purpose of data collection. The data was collected from the annual reports of the sampled companies for a period of ten (10) years (2011–2020). These firms are public limited companies listed on the Nigerian Stock Exchange. The study employed the multiple regression technique as the procedure of analysis, with the aid of STATA version 13 as a tool of analysis. The data for the study is panel in nature (that is, cross-sectional time series data). In order to check for endogeneity, the study used the Hausman specification test. Additional robustness tests adopted in this research include the test for multicollinearity using the variance inflation factor (VIF) and the Breusch-Pagan test for heteroscedasticity to check for the fitness of the model and reliability of findings.

The model for the study is adopted from previous studies of Igbal et al. (2016) Nguyen and Nguyen (2016) and Ltaifa and Khoufi (2016) and modified to suit the variables of the study as presented below:

$$SR_{it} = b_0 + \beta_1 MO_{it} + \beta_2 OC_{it} + \beta_3 IO_{it} + \epsilon_{it} \dots (i)$$

Where: SR= Stock Returns, OC= ownership concentration, IO= institutional ownership, MO= managerial ownership,  $b_0$  = intercept (constant),  $i$ = cross-sectional time,  $t$ =time series,  $\epsilon$  = Error term.

**Table 1: Measurement of Variables**

S/N	Variables	Definit ions	Type	Measurement	Construct Validity Source
1	SR	Stock Returns	Dependent	$P1-P0 / P0 \times 100$ Where: P1 represent price of the stock in current year as quoted at the end of the financial year. P0 represent price of the stock in the last financial year end.	Ayuba (2018); Bala and Idris (2015).
2.	OC	Ownership Concentration	Independent	Measured by the proportion of the value of shares held by number of block holders, exceeding 5% to the total number of ordinary shareholders.	Iqbal, Siddiq and Gul (2016); Erivelto and Fernando (2016); Foroughi and Fooladi (2012).
3.	MO	Managerial Ownership	Independent	Measured by the proportion of number of shares owned by directors to the total number of ordinary shares issued.	Ezazi, Sadeghi and Amjadi (2011); Bawa and Isa (2014); Teshima and Shuto (2008); Wafa and Younes, (2014).
4.	IO	Institutional Ownership	Independent	Measured by the proportion of number of equity shares of the firm held by institutional investors to the total number of ordinary shares.	Iqbal, Siddiq and Gul (2016); Hajara, (2015); Yang, Chun and Ramadili (2009).

**Source: Researcher’s Compilation, 2022**

## Results and Discussions

### Descriptive Statistics

This section contains the description of the properties of the variables ranging from the mean of each variable, minimum, maximum and standard deviation. The summary of the descriptive statistics of the variables are presented in table 2 below.

**Table 2: Descriptive Statistics**

Variables	Obs	Mean	Std Dev	Min	Max
SR	160	84.73062	264.197	17	1485
OC	160	.5958285	.1879737	.01	.861
MO	160	.0559345	.0400227	.001	.168
IO	160	.1894311	.0703284	.092	.392

**Source: Generated from STATA, 2022**

The outcomes in Table 2 indicate that the measure of share return (SR), which is the inverse of the share price behavior of consumer goods firms, has an average value of 84.73062 and a corresponding standard deviation of 264.197. This implies that the deviation between companies within the period significantly differs. Also, the minimum and maximum values stood at 17 and 1485, respectively. The firms tend to record significantly higher stock returns in some years than in others. For ownership concentration, the table shows a mean value of .5958285 and a corresponding standard deviation of .1879737. This shows that on average, 59% of the firms under study have concentrated owners in their ownership structure, and the value of the standard deviation confirms this assertion. The lowest number stands at 1%, while the maximum number is 86%.

Table 2 also shows that the average managerial ownership of the sampled consumer goods firms during the period of the study was .0559345 with a standard deviation of .0400227. This implies that an average of 5% of consumer goods firms in Nigeria have top-level managers who are also shareholders of the company. This assertion is confirmed by the standard deviation, which suggests that the data is distributed around the mean. The minimum and maximum values are .01 and 0.168, respectively. The maximum figure implies that just 16% of the companies have managerial shareholders. The descriptive statistics in Table 4.1 show a mean value of .1894311 and a corresponding standard deviation of 0.073284. This means that, on average, 19% of companies during the period of the study had institutional investors in their ownership composition. However, the value of the standard deviation, which is far from the mean, shows that there are a lot of differences in the level of institutional ownership among the sampled firms. The values of institutional ownership for minimum and maximum are 0 and 0.33333, respectively. This means that the highest number of institutional owners is 39%.

### **Correlation Matrix**

The Pearson correlation analysis matrix shows the relationship between the explanatory and the explained variable and also the relationship among all pairs of independent variables themselves. Generally, high correlation is expected between dependent and independent variables while low correlation is expected among independent variables. According to Gujarati (2004), a correlation coefficient between two independent variables 0.80 is considered excessive and thus certain measures are required to correct that anomaly in the data. Table 3 presents the result of the correlation matrix for all the variables.

**Table 3: Correlation Matrix**

	SR	OC	MO	IO
SR	1.0000			
OC	0.2344	1.0000		
MO	-0.1972	0.0044	1.0000	
IO	0.2695	0.2259	-0.1536	1.0000

**Source:** Generated from STATA, 2022

The result of the correlation matrix on table 3 reveals that ownership concentration and institutional ownership have positive correlation with stock return while the table reveals that managerial ownership exhibit negative correlation with real stock returns with a coefficient of -0.1972. It means that this explanatory variable and the outcome variable move in different directions.

**Regression Diagnostics**

The two robustness tests conducted in this study are multicollinearity and heteroskedasticity tests. These tests are important to regression estimation in order to satisfy the assumptions of the Ordinary Least Square (OLS) of homoskedasticity and absence of exact correlations among the independent variables in the model.

**Table 4: Tolerance and Variance Inflation Factors**

Variable	VIF	1/VIF
mo	1.46	0.683668
io	1.41	0.7111708
oc	1.10	0.905609
Mean VIF	1.32	

**Source:** STATA Output, 2022

From the result of the multicollinearity test in Table 4, the VIF and TV are found to be consistently smaller than 10 and above 0.10 respectively indicating the absence of multicollinearity as suggested by Neter, Kutner, Nachtsheim and Wasserman (1996), Tobachnick and Fidell (1996) and Cassey and Anderson (1999). The low mean VIF is also a pointer to the mild correlation among the regressors. This shows the appropriateness and fitness of the explanatory variables used in the model.

**Test for Heteroskedasticity**

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity



Ho: Constant variance  
 Variables: fitted values of sr

chi2(1) = 0.59  
 Prob>chi2 = 0.0910

In addition, the Breusch-Pagan or Cook-Weisberg test was used to test for the existence of heteroskedasticity after the OLS result showed chi2 = 0.59 and a p-value of 0.0910. The null hypothesis in this test assumes that the variance of the residuals is constant. If the p-value is significant at 5%, then there is substantial evidence to reject the null hypothesis, indicating the presence of heteroskedasticity.

**Hauseman Specification Test**

Test: Ho: difference in coefficients not systematic

chi2(2) = (b-B)'[(V\_b-V\_B)^(-1)](b-B)  
 = 0.01  
 Prob>chi2 = .08900  
 (V\_b-V\_B is not positive definite)

**Breusch and Pagan Lagrangian Multiplier Test for Random Effects**

The Hausman Specification test was conducted to ascertain between the fixed and random effect models which is more appropriate for interpretation. The result of the Hausman Test revealed that the value of chi2 is 0.59 and a corresponding prob>chi 0.0910. The significant value as reported by the probability of chi2 favours the random effect model. Given this result, the study went further to conduct the lagrangian multiplier test. The Breusch and Pagan Lagrangian multiplier test for random effects shows a chi2 of 0.01 and a corresponding probability of 0.08900 which indicates that the pooled OLS is appropriate for the study.

**Table 5: Summary of Pooled OLS Result Regression Result**

Source	SS	df	MS	Number of obs = 160
				F(3, 156) = 54.86
Model	948195.669	3	316065.223	Prob>F = 0.0029
Residual	10150014.9	156	65064.1982	R-squared = 0.1854
				AdjR-squared = 0.1678
Total	11098210.6	159	69800.0666	RootMSE = 255.08

sr	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
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oc	4.282942	1.112055	3.85	0.000	2.103354	6.46253
mo	-36.9705	20.69375	-1.79	0.076	-77.8466	3.905607
io	964.9211	295.6347	3.26	0.001	380.9575	1548.885
_cons	.0034803	.0055717	0.62	0.534	-.0076015	.0145622

**Source:** STATA Output, 2022

The regression result in Table 5 reveals that the R-square is 0.1854. This means that the ownership structure variables in the study explained the stock returns to the tune of 18%. The value of the F-statistic is 54.86, with a probability of  $\chi^2 = 0.002$ . The probability of  $\chi^2$  is significant at 1%, indicating that the model is fit. This serves as substantial evidence to conclude that the ownership structure variables selected for the study are suitable and can be used to explain the behavior of stock returns at consumer goods firms in Nigeria. Furthermore, the regression result in Table 6 presents evidence to show that ownership concentration, which is one of the ownership structure variables, has a positive and significant effect on stock returns of quoted consumer goods companies in Nigeria. This is evidenced by the coefficient of 4.282942 and the p-value of 0.000, which are significant at a 5% level of confidence. Given this outcome, the study has significant evidence to reject the hypothesis that ownership concentration has no significant effect on stock returns of quoted consumer goods companies in Nigeria.

The result in Table 6 indicates that managerial ownership has a t-value of -1.79, a coefficient of 36.9705, and a p-value of 0.076, which is insignificant at 5%. This means that managerial ownership has an insignificant negative relationship with the stock returns of listed consumer goods firms in Nigeria. The 5% significance level reveals that managerial ownership does not have any strong statistical influence on stock returns of consumer goods firms in Nigeria. Based on this, the study accepts the null hypothesis, which states that managerial ownership has no significant effect on stock returns of listed consumer goods firms in Nigeria. This study also determined the effect of institutional ownership as one of the ownership attributes on stock returns of quoted consumer goods companies in Nigeria. The results emanating from Table 4.7 indicate that institutional ownership has a statistically significant positive effect on stock returns in the area covered by the study. This claim is substantiated by the values of the coefficient and the p-value of 964.9211 and 0.001, respectively. This indicates a strong likelihood that institutional owners can be used to determine the level of stock returns of investors in the consumer goods sector.

### **Conclusion and Recommendations**

For the purpose of coming up with strategies for developing the African rural economy, an attempt has been made in this study to examine the effect of three

ownership attributes on stock returns of quoted consumer goods firms in Nigeria. Based on the results obtained, the study concludes that, so far as aggregated ownership properties are concerned, their combined influence on stock returns of quoted consumer goods firms in Nigeria is significant. The effect, however, gets diluted as the variables are considered on an individual basis. Specifically, the study found that managerial ownership has no substantial influence on stock returns. Based on the fact that the study lacks any statistical evidence to conclude that managerial ownership is a determinant of stock returns of quoted consumer goods companies in Nigeria, However, the study finds that ownership concentration and institutional ownership exert substantial influence on stock returns among consumer goods companies quoted on the Nigerian stock exchange. Given this result, there is statistical evidence to conclude that these attributes are determinants of stock returns in the area covered by the study. The study therefore recommends that consumer goods companies encourage higher institutional shareholding. This is based on the fact that institutional ownership has an effect on stock returns because the higher the institutional ownership, the stronger the external control of the company, which can encourage managers to increase dividend payments.

Also, a company desirous of improving its return on assets and dividend payments can favor having more block holders. This is because large block holders have a greater incentive to monitor management, as the costs involved in monitoring are less than the benefits of large equity holdings in the firm. This will go a long way toward creating additional wealth that can be made available for distribution as dividends and reinvestment in the company.

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## Chapter 9

# Assessing the Characteristics of Emerging Country Multinationals and Models for their International Expansion in Competitive Business Environment

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### Abstract

There are no set guidelines for emerging country multinationals' worldwide expansion, as evidenced by the different orientations, varieties, and extent of their internationalization plans and patterns. The purpose of this study is to outline the key traits of multinational corporations from developing nations as well as models for their global expansion. The study's methodology was based on the most recent research on multinationals from developing nations and theories of globalization found in journals, textbooks, and other publications. The results showed that rising-country MNCs must deal with the risk of entering international markets later than anticipated, which is why some academics refer to them as latecomer enterprises. In comparison to well-established MNCs from developed countries, they all share this disadvantage. In order to get access to new markets, multinationals from emerging countries will need to strengthen their innovation capacities and move up the value chain.

**Keywords:** Multinationals, Models, International expansion, Competitive business environment

### Statement of the Problem

Transnational corporations from developing markets have emerged as significant actors in the global marketplace. These growing multinationals are expected to have a significant impact on the global business climate thanks to their rapid growth rates. Accenture (2008) highlighted that there are no set guidelines for emerging country

multinationals' worldwide expansion due to the wide range of directions, types, and extent of their internationalization strategies and patterns. With specific attention to the industry, stage of the firms' life cycles, and history of their respective home countries. The study is based on recent research on multinationals from developing nations and theories of global growth. There were journals, books, and other periodicals used.

### **Objective of the Study**

to outline the main traits of multinational corporations from emerging economies and methods for their global expansion.

### **Literature Review**

#### **Emerging Markets and Foreign Direct Investment**

For MNCs, emerging markets are becoming more crucial. Emerging markets are those that are in the process of moving from developing to developed status. Such developing markets include the economies of the BRICS nations (Brazil, the Russian Federation, India, China, and South Africa). These rapidly expanding economies currently make up around half of all economic activity. Their populations are sizable, and their disposable incomes are rising. As a result, they are popular targets for MNCs' foreign direct investment in search of resources, efficiency, and markets. Yet, their contribution to global economic activity is shifting from a passive one as a supplier of inputs, goods, technology, or cheap labor to a more active one as a source of new competitors on global markets (Rugman and Collinson, 2012). The growth of global foreign direct investment exhibits this pattern (see Table 1). In 2012, developing nations received more foreign direct investment (FDI) than developed countries, making up more than half of total FDI inflows. About half of the top 20 recipients of international FDI were developing nations. Yet FDI to emerging nations has increased dramatically as well, accounting for more than 30% of all FDI outflows globally. They are not just receivers of global FDI. The leading recipients of FDI from developing nations were emerging markets like the BRICS nations. China was the third-largest investor nation in 2012, behind the United States and Japan, with FDI from BRICS countries accounting for 10% of the global total in that year (UNCTAD 2013).

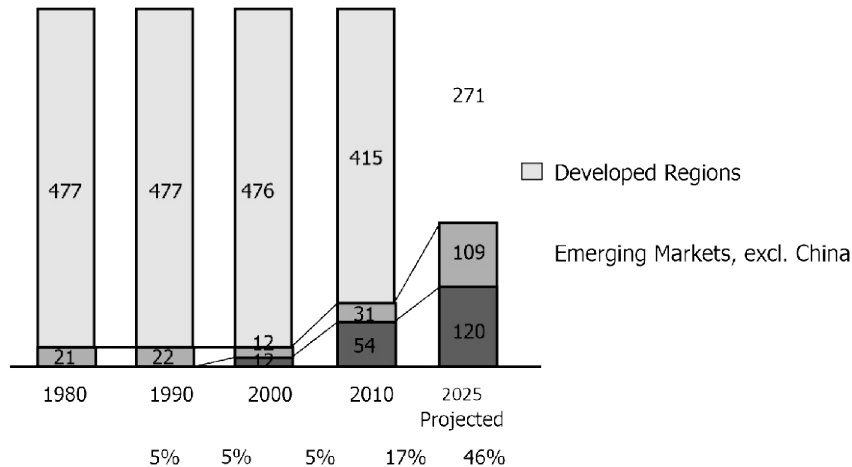
**Table 1: Global Foreign Direct Investment**

Region	FDI inflows			FDI outflows		
	2010	2011	2012	2010	2011	2012
<b>World</b>	<b>1409</b>	<b>1652</b>	<b>1351</b>	<b>1505</b>	<b>1678</b>	<b>1391</b>
Developed economies	696	820	561	1030	1183	909
Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
East and South-East Asia	313	343	326	254	271	275
South Asia	29	44	34	16	13	9
West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Oceania	3	2	2	1	1	1
Transition economies	75	96	87	62	73	55
<b>Structurally weak, vulnerable and small economies</b>	<b>45</b>	<b>56</b>	<b>60</b>	<b>12</b>	<b>10</b>	<b>10</b>
Least developed economies	19	21	26	3.0	3.0	5.0
Landlocked developing countries	27	34	35	9.3	5.5	3.1
Small island developing States	4.7	5.6	6.2	0.3	1.8	1.8
<b>Memorandum: percentage share in world FDI flows</b>						
Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
South Asia	2.0	2.7	2.5	1.1	0.8	0.7
West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
<b>Structurally weak, vulnerable and small economies</b>	<b>3.2</b>	<b>3.4</b>	<b>4.4</b>	<b>0.8</b>	<b>0.6</b>	<b>0.7</b>
Least developed economies	1.3	1.3	1.9	0.2	0.2	0.4
Landlocked developing countries	1.9	2.1	2.6	0.6	0.3	0.2
Small island developing States	0.3	0.3	0.5	0.0	0.1	0.1

**Source:** UNCTAD 2013.

The emergence of emerging country multinationals, or MNCs with their roots in emerging economies, is what defines the shift in the role of emerging markets in international trade. It is predicted that by 2025, these businesses will make up more than 45% of the Fortune Global 500, or the top 500 global businesses ranked by revenue, up from 5% in 1990. According to Guillén and Garca-Canal (2011), emerging country multinationals produced around a quarter of the total amount of FDI that was exported globally in 2009.

**The Fortune Global 500 by Location**



Source: McKinsey Global Institute 2013.

**Characteristics of Emerging Country Multinationals**

Multinational corporations (MNCs) with offices in emerging markets are known as emerging country multinationals (Rugman and Doh, 2008). MNCs with roots in these rapidly expanding economies have spread around the globe as major players in international FDI and cross-border acquisitions. Emerging multinationals, emerging market businesses, third-world multinationals, unconventional multinationals, and emerging market multinationals are a few phrases that have been used to describe this phenomenon (Guillén and Garca-Canal, 2011). Although these multinationals from developing nations are "far from homogeneous" (Lou and Tung, 2007), they do share a few traits in common that set them apart from their rivals who are from developed nations (see Table 2). The speed at which multinational corporations from developing nations are entering global marketplaces and closing the gap with their counterparts from conventionally established economies is perhaps most startling. They frequently begin their worldwide expansion relatively early in their lifecycles with an accelerated pace of internationalization (Goldstein, 2007). (Dunning, Kim, and Park, 2008).

**Table 2: Characteristics of Emerging Country MNCs and Traditional MNCs**

Feature		Emerging Market MNCs	Traditional MNCs
Speed of Internationalization		accelerated	gradual
Competitive Advantages		weak: upgrading of resources required	strong: required resources available in-house
Political Capabilities		strong: firms are used to unstable political environments	weak: firms are used to stable political environments
Expansion Path	In Search of Markets	dual path: simultaneous entry into developed and developing countries	single path: from less to more distant countries
	In Search of Lower Costs	into less developed countries as home country development raises production costs	into more developed countries
	In Search of Strategic Assets	into less developed countries	into similar developed countries
Preferred Entry Mode		external growth: alliances, joint ventures, acquisitions	internal growth: wholly owned subsidiaries
Organizational Adaptability		high, because of their recent and relatively limited international presence, which enables them to adapt technologies to small -scale markets, excel at projects execution and adopt new technology quickly	low, because of their ingrained structure and cultures

**Source:** Guillén and García-Canal, 2011

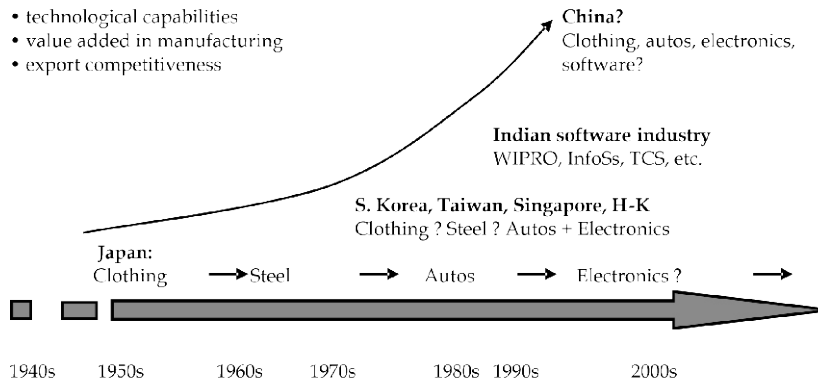
Developing country multinational corporations (MNCs) have demonstrated a quick development of comparative and competitive advantages in a variety of industries and appear to be catching up with developed country MNCs quickly, demonstrating a parallel development in many areas (Rugman and Collinson, 2012). Bawa (2019) said that the WTO has played a significant role in eliminating protectionist inclinations and pushing member countries to take actual actions to further liberalize their economies and trading systems, notwithstanding the failure of negotiations at the 2006 summit in Doha.

**Development of Emerging Country Multinationals**

Comparative and competitive advantage

= Increased:

- technological capabilities
- value added in manufacturing
- export competitiveness



Source: Rugman and Collinson, 2012.

**Discussion of Finding**

Nonetheless, some academics refer to rising-country MNCs as latecomer enterprises because of the burden that comes with being late entrants to the global market (Mathews 2006). In comparison to well-established MNCs from developed countries, they all share this disadvantage. As a result, their technology, marketing capabilities, and resources frequently need to be developed from a lower base. Firms need to be able to adapt to the many conditions of a shifting international environment in order to grow successfully in international markets. Emerging-country multinationals benefit from greater flexibility and freedom to adjust to the demands of internationalization, but classic MNCs with established business histories frequently experience inertia and path dependence (Guillén and Garca-Canal, 2011). Emerging country multinationals are uniquely suited to deal with market constraints, administrative, infrastructural, and political challenges, as well as (in some cases heavily) regulated and rapidly changing institutional environments, because of their origin in nations with a propensity for discretionary and unstable governments. In order to succeed as a global player, this contextual embeddedness in a setting marked by institutional holes has frequently been described as a liability of origin (Bartlett and Ghoshal, 2000). In contrast to typical MNCs, emerging country multinationals appear to have turned this liability into a benefit because it gives them stronger political powers (Sauvant, Maschek, and McAllister, 2009). The fact that state influence over emerging country multinationals is greater than it is for classic MNCs is closely related to the institutional environment (Peng 2012). State influence can take many different forms, including political influence, for instance, through legislation, subsidies (such as R&D subsidies), policies that encourage internationalization (such as the "go global" policy

in China and the "go west" policy in Russia), or policies that forbid internationalization (e.g., restrictions on FDI inflows and outflows).

Moreover, (direct or indirect) state ownership is a rather typical occurrence for multinational corporations from growing nations, particularly those from the Russian Federation and China. In the oil and gas sector, government ownership dominates. Yet, state-owned enterprises' internationalization plans frequently serve a variety of non-economic purposes. These motivations might occasionally be more closely related to political goals, such as seeking control over how power is distributed in global markets. State-owned businesses are becoming more important in the global commercial climate. For instance, from 650 MNCs in 2010 to 845 MNCs in 2012, state-owned MNCs that are considered global participants increased in number. These state-owned multinational corporations are mostly from developing nations. In 2012, they accounted for more than 10% of all FDI in the world (UNCTAD 2013).

#### **Trends in Emerging Country Multinationals' Internationalisation Waves of Emerging Country Multinationals' Expansion**

It is not a recent phenomenon for emerging market companies to enter new markets. A first wave of MNCs from emerging nations engaged in external investment in the 1970s and 1980s. Back then, benefits from low-cost production employing labor-intensive production techniques were widely credited for the internationalization of the so-called Third World multinational companies. This first wave's geographic concentration was mostly on close-by markets, which were frequently also emerging nations. Internationalization at this initial phase was primarily influenced by market limitations or export challenges in the home country markets (Mathews, 2006). The phenomenon of developing country enterprises going global underwent a transformation in the second wave, being "less motivated by cost factors per se and more driven by a hunt for markets and technological breakthroughs to compete successfully in the global economy" (Yeung, 2000). Pull factors attracted multinationals from emerging countries to international activities (Mathews, 2006).

#### **Industry Focus of Emerging Country Multinationals**

Although multinationals in emerging countries don't focus on homogeneous market sectors, they still frequently engage mid-tech and established industries. Its aptitude to modify established technology to the unique requirements of regional surroundings is one of its advantages (Ramamurty & Singh, 2009). In this way, they imitate instead of invent and "have yet to achieve a distinctive global profile based on well-defined strategic strengths and differentiated brand identities" (Sim & Pandia, 2003).

Nonetheless, several multinational corporations from developing nations have evolved from this imitator status to become key players in the global market for their

respective industries. Examples include the Chinese company CIMC, the Indian company Mahindra & Mahindra, and the Brazilian company Embraer in the aircraft business. In the majority of industries, multinationals from emerging countries are present. Yet, some key sectors are particularly significant in certain regions, often in relation to particular nations (Graser, 2011):

1. The natural resource sector, including those from Brazil, the Russian Federation, and China, as well as public utilities and telecommunications, is home to significant emerging-country multinational corporations.
2. Asian businesses frequently concentrate on high-tech engineering and production.
3. Some significant Indian MNCs concentrate their efforts on the pharmaceutical, IT, and services sectors, as well as the automobile sector.
4. Due to their agricultural roots, many rising market participants, particularly those from South America and Asia, work in the food processing sector.

Comparatively to their counterparts with origins in industrialized countries, significant multinationals from developing countries are more typically organized as conglomerates, diversified groups, or business groups (Goldstein, 2008). These conglomerates offer benefits including better brand recognition, internal marketplaces for resources like financial resources, as well as expertise and management (Khanna & Palepu, 2006).

### **Expansion Paths**

The conventional expansion path for emerging-country multinationals tends to diverge from that of most classic MNCs. In terms of internationalization orientation, the main differentiation is between "South-South investments" (Battat & Aykut, 2005), often dubbed "E2E investments" (emerging market-to-emerging market), and "South-North investments":

1. South-South investments go from developing nations serving as host countries to other developing nations. Such internationalization patterns typically have asset exploitation as their driving force, taking advantage of current competitive advantages while primarily looking for low-cost labor and market expansion.
2. Contrarily, south-to-north investments are made from developing to industrialized nations with a focus on acquiring or exploring assets. Emerging-country multinationals pursue access to strategic assets like technologies, brands, or particular expertise in addition to market expansion.

Due to multinationals' easier ability to transfer their domestic competitive advantages to these more comparable markets, expansion into developing countries may be accomplished more quickly. This might be used as a foundation to develop



operational expertise, expand in scope, and make money. However, entering developed markets gives multinationals from developing nations additional competitive advantages, which leads to an improvement in their capabilities and resources (Guillén & Garca-Canal, 2011). Multinational corporations from developing nations often have different approaches to breaking into new global markets. Whereas conventional MNCs frequently prioritize internal development strategies through wholly-owned subsidiaries, at least in the early phases of their international expansion, emerging country multinationals typically pick entrance tactics based on external growth and cooperation. Particularly when entering industrialized nations, they exhibit a predilection for strategic alliances, joint ventures, or mergers and acquisitions. By collaborating with partner companies in global alliances or acquiring established players on the host country markets, these foreign operation modes assist them in overcoming the liability of being foreign by gaining access to strategic assets, resources, and capabilities (Guillén & Garca-Canal, 2011). Some rising-country corporations have acquired established companies in developing countries by acting as "deal hunters" and buying them out when their commercial prospects were poor or they were even bankrupt.

#### **Explaining Emerging Country Multinational Expansion**

There are various ways to explain how multinational corporations internationalize. The ownership location internalization (OLI) framework, one popular strategy, is based on Dunning's eclectic paradigm and holds that MNCs have superior resources that they may use to successfully penetrate new markets. Yet, multinational corporations from developing nations frequently lack a broad base of particular resources that would give them an ownership advantage. Despite their efforts to find lucrative foreign markets and internalize transactions, they frequently lack superior knowledge, technologies, or management skills (Peng, 2012).

#### **Value-Creation Strategies in Foreign Markets**

Resources, their accessibility to the company, their transferability, and their interchangeability between markets play a significant part in the value-creation strategies of emerging country multinationals.

**Table 3: Value Creation Strategies of Emerging Country Multinationals**

		Transferability between Markets			
		high		low	
Availability for the Firm	high	<b>I (Exploiters)</b>		<b>II (Defenders)</b>	
		<b>Resource</b>	<b>Firm Example</b>	<b>Resource</b>	<b>Firm Example</b>
		<ul style="list-style-type: none"> <li>know-how (marketing, brand &amp; distribution)</li> </ul>	Astrid y Gastón, Concha y Toro, Bimbo, Pollo Campero	<ul style="list-style-type: none"> <li>market share</li> </ul>	
		<ul style="list-style-type: none"> <li>market knowledge</li> </ul>	América Móvil, Cemex	<ul style="list-style-type: none"> <li>customer-driven</li> </ul>	Tenaris
		<ul style="list-style-type: none"> <li>innovative capability</li> </ul>	Tenaris	<ul style="list-style-type: none"> <li>competitor-driven</li> </ul>	América Móvil, Cemex, Politec
		<ul style="list-style-type: none"> <li>know-how (production)</li> </ul>	Petrobas	<ul style="list-style-type: none"> <li>market-driven</li> </ul>	Petrobas
		<b>IV (Others)</b>		<b>III (Resource Developers)</b>	
	low	EMNCs use another form of access to resources lacked (e.g., imports)		<ul style="list-style-type: none"> <li>Resource</li> </ul>	Firm example
				<ul style="list-style-type: none"> <li>leading technology/knowledge</li> </ul>	Bimbo, Politec, Natura
				<ul style="list-style-type: none"> <li>financial resources</li> </ul>	Cemex
<ul style="list-style-type: none"> <li>know-how (marketing: brand &amp; distribution)</li> </ul>				Bimbo	
<ul style="list-style-type: none"> <li>natural resources</li> </ul>				Vale, Petrobas	

Source: Losada Otalora and Casanova, 2012

Four internationalization strategies can be identified based on these resource qualities (Losada Otalora & Asanova 2012):

1. Exploiters add value by selling resources they have produced for domestic customers on global marketplaces. These resources mostly consist of knowledge-based assets like brands or specialized production know-how.
2. Defenders are businesses that make investments abroad to maintain their market share, i.e., a resource that cannot be transferred across markets. The major goal is to make investments abroad in order to protect their market position from market-driven challenges such as growth restrictions or market dependence on a single or small number of markets.
3. By obtaining marketing, technological, financial, or natural resources, resource developers build value abroad. This enhances their total worldwide skills, but they are not marketable.

4. Other: The fourth category includes businesses that receive resources through different channels, such as imports.

**LLL-Framework: Linkage, Leverage, Learning**

Emerging markets are still viewed as sources of innovation, despite many downsides. Emerging country multinationals have the ability to innovate and continuously build up lasting competitive advantages that lessen their reliance on location-specific endowments, starting from the conditions of their home markets (Rugman & Collinson, 2012). The distinct benefits of multinationals in successful emerging countries are outlined in Table 4 in brief. The LLL framework, which Mathews (2006) introduced, is strongly related to these firm-specific advantages of multinationals from emerging economies. According to this concept, resource connection, leverage, and learning are what propel emerging country multinationals' global expansion.

**Linkage**

Developing country Multinational internationalization begins with an emphasis on resources that may be purchased externally, i.e., on global markets, rather than their own advantages and capabilities because they are late entrants to the market. Multinational corporations from developing nations tend to have an outward focus and look to acquire resources and complementary assets that are available on the global market rather than in their own nations. To get over the restrictions and limitations of their native markets, one must first look for benefits outside of such markets with resource-seeking aims along these lines. But this outside concentration is riskier than the more cautious inward one. As a result, joint ventures are a popular mode of foreign market entry for multinationals from emerging countries. Joint ventures are also essential strategic choices to access external resources, as was previously highlighted. Various methods of internationalization are employed to create global networks that connect resources. Multinational corporations from developing nations are doing this by "pulling themselves into circuits of exchange and sources of benefit" (Mathews, 2006).

**Firm-Specific Advantages of Emerging Country Multinationals**

Globalising...	Assets	Capabilities	Connections	Reputation
Innovation and Technology	patents, licenses, IPR, specialised tools, hardware, software, etc.	low-end (maintenance) to high-end (blue-sky R&D) expertise	strategic alliances, buyer and supplier links. R&D networks/global capability inputs	credibility, trust, track record, recognition
Marketing and Brands	own valued brands, logos, trademarks, awards, etc.	brand management protection, development of expertise	formal co-branding, supplier or buyer, distribution, and retailing affiliations	reputation for quality, price, innovation, etc., market positioning, brand recognition, market presence

**Source:** Rugman and Collinson, 2012

**Leverage**

The connections between resources and competitive advantages can be strengthened by establishing networks of resource exchange and exploitation. Thus, leverage refers to the capacity of multinationals from emerging economies to utilize these distinctive strengths throughout their global network of activities (Peng, 2012). Establishing structures and procedures that allow businesses to efficiently manage and utilize the skills and resources across the entire network is essential in this situation. Multinational corporations from developing nations can, however, take advantage of these resources by establishing knowledge exchange throughout the network. Contracts for technology licensing, imitation, and reverse engineering may also be included (Mathews, 2006).

**Learning**

Emerging country multinationals are better fitted to the international markets, which are becoming more interconnected themselves, thanks to linkage and leverage methods. Yet, expansion patterns are accelerated by the subsequent learning processes. Businesses repeatedly use linking and leverage techniques that result in organizational learning techniques.

Criterion	LLL-Framework
Resource Utilisation	resources accessed through linkage with external firms
Geographic Scope	locations tapped as part of international network
Make or Buy?	bias towards operations created through external linkage
Learning	learning achieved through repetition of linkage and leverage
Process of Internationalisation	proceeds incrementally through linkage
Organisation	global integration sought as latecomer advantage
Driving Paradigm	capturing of latecomer advantage
Time Frame	cumulative development process

**Source:** Adapted from Mathews, 2006.

**Models of International Expansion**

There is no set path for emerging country multinationals' worldwide expansion, as seen by the different orientations, varieties, and extent of their internationalization strategies and patterns. Five patterns of international expansion can be distinguished based on specific reference industries, the stage in the companies' life cycles, and the unique home country backdrop (Accenture, 2008):

Full-fledged global players are more established, comparably older, and have reached a global presence and importance equivalent to the major Western MNCs in terms of scale and geographic scope. Examples include the Indian companies Bharat Forge and Tata Group as well as CEMEX of Mexico.

As global businesses broaden their activities globally, regional players among rising country multinationals restrict their reach to nearby regional markets, typically those that are closer in terms of geography and culture. They are frequently fledgling businesses that are just beginning to internationalize. The Czech business CEZ or the Polish bank PKO BP examples.

Global sources concentrate on selling on domestic markets. Nonetheless, they are forced to source overseas due to resource limitations in their native markets. This technique is frequently used by businesses in the commodities or energy sectors, such as China National Offshore Oil Company (CNOOC) or Reliance Petroleum Limited from India, who import oil from abroad to sell primarily to domestic markets. One such tiny, worldwide business with a narrow concentration on the global market is Holografika, a maker of specialized display technology based in Hungary.

### **Conclusion and Recommendations**

Emerging-country multinationals require enough resources, such as capital, energy, raw materials, qualified workers, etc., to ensure future expansion. Global rivalry is getting more intense as MNCs, particularly those from emerging economies, become bigger and more numerous. This can reduce the prospects for further development. Global and regional regulatory and policy players are becoming more complex for emerging-country multinationals operating across borders. The direction or pace of their future expansion may be constrained by regulatory practices. Emerging country multinationals are exposed to customer sectors with increasingly diverse wants and desires in the global market arena, especially when entering wealthier markets. These sectors may be challenging to serve with a one-size-fits-all strategy. This highlights the importance of continuing to cater products and services to regional demands, which is one of the major advantages of multinationals from emerging economies. In order to advance up the value chain and get access to new markets, emerging-country multinationals will need to strengthen their innovation capabilities. Future challenges will be engaging in high-end research, whereas their past innovation capabilities were mostly due to the necessity to adapt and improvise in global marketplaces. Multinational corporations from developing nations are obviously well positioned for future expansion. They are expected to increase their market share in global marketplaces going forward, becoming independent global companies.

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## Chapter 10

# Addressing Nigeria's Security Challenges Through Entrepreneurship Education: A Strategy for Conducive Business Environment

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### Abstract

**D**espite the attached dividends to entrepreneurship and the provision of entrepreneurship training in Nigeria, numerous youths are still found roaming from place to place in search of a better job, some engaging in kidnapping, ethnic militias, and so on, without the willingness to take part in entrepreneurship activities. The objectives of the study are to address Nigeria's security challenges through entrepreneurship education. An expository survey of existing literature on the subject matter under review was used to explain the major concepts, theories, and empirical studies. The study found that there are a growing number of youths without jobs, thereby affecting their well-being and national security. The study concluded and recommended that security awareness and sensitization programs such as entrepreneurship education and counseling the trainees should be embarked upon for the public, and fighting terrorism requires a collective effort by all Nigerians.

**Keywords:** Security challenges, Entrepreneurship education, Conducive, Business environment

### Background to the Study

Security goes beyond military consideration; it embraces the economic, political, and social dimensions of individual, family, community, local, and national life. The



security of a nation must be constructed in terms of the individual citizens' ability to live in peace with access to the basic necessities of life while fully participating in the affairs of their society in freedom and enjoying all fundamental human rights (George-Genyi, 2013). Kennedy (2013) noted that great developments are needed towards the goal of educating people to become entrepreneurs to create jobs and enhance economic growth and development. The need for education in the development efforts of any nation cannot be underestimated. People's intentions can be aroused based on how they feel about entrepreneurial behavior. If they feel venture creation is something desirable and feasible, they may have intentions for entrepreneurial behavior. Behavior can be best predicted by the individual's intention, which is normally derived from his or her attitudes. The initial intention of the founders may have far-reaching implications for the characteristics of the organization. The intention of the founder reflects the critical assumptions about the venture's concept and its social context (Carsrud, 1989; Carsrud & Sapienza, 1993; Bird, 1998). Some of the exogenous factors affecting intention may include unemployment, insecurity, an unstable and predictable business environment, and personality traits. Similarly, students may form an intention to engage in entrepreneurial activity depending on some motivational factors such as desire for success, risk-taking ability, and independence.

#### **Statement of the Problem**

Despite the attached dividends to entrepreneurship and the provision of entrepreneurship training in Nigeria, numerous Nigerian youths are still found roaming from place to place in search of better jobs without the willingness to take part in entrepreneurship activities (Akanbi, 2013). This suggests that entrepreneurship engagement is not only a function of education but much more of intention. This is because intentions have the ability to predict an individual's behavior, particularly when the behavior is rare, hard to observe, or involves unpredictable time lags (Krueger, 1993). Therefore, entrepreneurial intention has proven to be a primary predictor of entrepreneurial behavior. It therefore follows that entrepreneurship education may actually propel people into entrepreneurship and develop them towards self-employment. The issue of national security is very vital in any nation; in fact, once security is not guaranteed in any nation, its economic development will be seriously affected since no investor will like to put money in an environment of crisis. More so, the citizens can only exert their best potential in a peaceful environment. In addressing the challenge to the survival of democracy in Nigeria, it is pertinent to consider security issues and problems that have affected or are capable of affecting the attitude, confidence, and cooperation of all groups and segments in the Nigerian Federation. Some of the major security problems currently confronting the nation have been identified to include: terrorism, which may come as a result of political and electioneering conflicts; socio-economic agitations; ethno-religious crises; ethnic

militias; boundary disputes; cultism; criminality; and organized crimes (Amuseghan & Tayo-Olajubutu, 2009). These problems, individually and collectively, constitute threats to the peace, security, and development of the country. Invariably, they have implications for the continuity and survival of the nation's teen democracy.

### **Objective of the Study**

To address Nigeria's security challenges through entrepreneurship education.

### **Methodology**

An expository survey of existing literature on the subject matter under review was used in explaining the major concepts. The choice of this method is necessary given the need to adequately, explain entrepreneurship education and security challenges with specific reference to Nigerian business environment. The paper relies heavily on information collected from journal articles, textbooks and other publications.

### **Literature Review**

#### **The Concept of Entrepreneurship Education**

The term 'entrepreneurship' is usually not associated to education. Its history is however, connected to the content of education and qualification. Entrepreneurship education has a broad definition, which includes economic, social and cultural factors. Entrepreneurship education is based on a dynamic and social process where individuals, alone or in collaboration, identify opportunities for innovation and act upon these by transferring ideas into practical and targeted activities, whether in social, cultural or economic context (Katz, 2008). According Isaac, Visser, Fredrick, and Brijal (2000) in Akinnowo (2013) Entrepreneurship education is the purposeful intervention by educator in life of the learner to survive in the world of business. Bird (1998) Affirm that Entrepreneurship education is viewed as learning about opportunities recognition, marshalling of resource in the presence of risks and building or establishing business venture. This means entrepreneurship education is a collection of formalized teaching that inform, trains, educate anyone interested in participating in socioeconomic development through a project to promote entrepreneurship awareness, business creation or small business development. In entrepreneurship education, students participate in real life learning experiences where they have opportunities to acquire planning and organizing skills, take risks, manage the results and learn from the outcomes; acquire communication skills to enable them communicate freely with members of the society; acquire creative/innovative skills to enable them become creative and innovative by adding value to work. Entrepreneurship education and training becomes very important machinery to meet the national goals. Nevertheless, while it is not necessary for an individual to obtain entrepreneurship training to be successful, obtaining an entrepreneurial education serves as a tremendous advantage to increasing the

chances of success as an entrepreneur. This is because training is focus and directed to achieving a special purpose, while education is too broad and wide in scope. Kennedy (2013) sees Entrepreneurship education as the acquisition of knowledge, skills and attitude to enable the learner apprehend life challenges in whatever form and take decisive steps to realize new trends and opportunities for meeting those challenges in all aspects of human life. The major criticism of all the definitions is lack of concession among them. From the foregoing, it can be seen that entrepreneurship education has a very important role to play in the formulation and setting up of business ventures as well as helping to solve the problem of unemployment in a globalised environment through the inculcation of entrepreneurial culture and innovativeness in individuals and groups. Entrepreneurship education in this study is seen as an educational process which is geared towards imparting requisite entrepreneurial skills in students to enable them become entrepreneurs so as to be useful to themselves in the society.

#### **Concept of Entrepreneurial Intentions**

Generally, intention is the cognitive state immediately prior to executing behaviour (Krueger & Carsrud, 1993). Thus, an entrepreneurial intention is concerned with the inclination of a person to start an entrepreneurial activity in the future. It is a key determinant of the action of new venture creation moderated by exogenous variables such as family background, position in one's family, parent(s) occupation, education and training (Bird, 1988). Chen (2010) defined entrepreneurial intention as "a self-acknowledged conviction by a person that they intend to set up a new business venture and consciously plan to do so at some point in the future. Previous studies have indicated that entrepreneurial intention is a strong predictor of planned behaviour (Ajzen, 1991; Bird, 1988. According to Bird (1988); intentionality is a state of mind directing a person's attention, which leads to experience and action in order to achieve something. Entrepreneurial intention is a state of mind that people wish to create a new firm or a new value driver inside existing organizations. (Car and Sequeira, 2007). Intentionality therefore acts as a force that propels entrepreneurial actions and behaviour. It gives direction to someone attention and determines experience one gets in life. Cooper, Woo and Dunkelberg (1988) indicated that various paths to achieving business ownership are; related to the background characteristics, motivations, attitudes, and employment history of owner-managers, as well as the support they receive and the processes they employ to start a new business. They reported that entrepreneurs who establish firms differ considerably from those promoted or hired. Moreover, those who inherit or purchase a firm fall between these two extremes. Therefore, examining individuals' intention to be self employed would offer a worthwhile bright idea for researchers to realize entrepreneurial stages and forecast entrepreneurship activities in a effective way by keying out forerunners of entrepreneurship intention

### **Entrepreneurial Intentions**

Creating a new venture requires gradual processes that involve the intention to start, the conception of a business idea, and the actual formation of the new venture. Entrepreneurship activity should be a planned behavior that is intentional and usually affected by an individual's attitude (Krueger & Carsrud, 1993). Intention involves an intellectual procedure that has to do with belief, perception, and action (Ajzen, 1991). Some scholars argued that attitude is closely related to entrepreneurial intention. Students at tertiary institutions (colleges, polytechnics, and universities) may have different attitudes largely because of other exogenous variables such as entrepreneurial education, entrepreneurial experience, the presence of a role model, demographics, individual perception, etc. Although attitudes change with time, they can provide a basic explanation or prediction of future actions by individuals (Carison, 1985). Knowledge of the intention and subsequent decision to create a new venture is an interesting issue to explore (Katz & Gartner, 1988). Moreover, understanding the intention and attitudes of the students could help in developing more vital and effective entrepreneurship education (Gibson, Harris, & Burkhalter, 2011). Intention is an important factor in determining the emergence of new business ventures. In some instances, socio-economic factors have a great effect on changing the attitude of the students. For example, with high competition in the labor market for vacancies, a student may not choose to wait until the end of his or her studies to start looking for a job. The student may be compelled to think proactively and develop the intention of starting their own business after graduation rather than struggling for employment. The reality of starting a business requires overpowering many challenges, such as start-up capital constraints, penetrating the market, and ensuring the sustainability of the business (Abubakar, Kabir, & Nalado, 2014). Many people have the clear intention of starting a business, but they fail to do so because they cannot overcome some of these challenges.

### **Concept of Security Challenges**

Robert (2014) defined security as the flexibility from peril, care terrorizing, dead, the feeling of confirmation of security, peace of intellect on nonappearance of fear, and the certainty or confirmation of the great life welfare. The term security is multidimensional and complex which existed since human civilization came into being. Security is conceivable a vital need for the presence of people and the survival of any nation-state. A form of security threats to the 'teen' Nigeria business environment is failure of leadership. Insecurity based democracy is born out of the misconceptions and activities of the narrow, shadow and bourgeois elites who are in control of power and state machinery (Akinawo, 2013). These elites are responsible for the failure of the Nigeria state and the weakness of the statecraft. They manipulate the state craft for their selfish, religious and ethnic interests, thereby compromising security and popular goals. Security based democracy is much dependent on political stability,

economic empowerment and a strong state. Failure of government to live up to its legitimate expectations and constitutional responsibilities, in turn, leads to despondency, rapidly rising tension and frustration, all of which capable of being manipulated.

Dogarawa (2013) pitches his tent in line with this assertion when he argues that when economic mismanagement and official thievery of national resources on an unprecedented scale led to hunger, poverty, and desperation, the whole society became a tinderbox and needed only a little elite tinkering to ignite. The essence of leadership in any social context is the improvement of the welfare of members of society and the politics of inclusion, but in a democratic system where the political model of 'winner-takes-all' is the order of the day, it will be difficult to achieve a high level of security. Since everybody wants to be in the mainstream of the subsisting politics, elections become a 'do or die' affair. The current security challenges in Nigeria can be factored into this model. Where society is properly organized with citizens dutifully engaged in economic activities, violent crimes will be minimized to zero tolerance. This will provide an opportunity not only to participate in economic activities but also to involve stakeholders in the management of affairs. On the contrary, where the citizens are isolated, they will be reduced to mere pawns in the power equations of the ruling elites, a situation inimical to harmonious co-existence. A very clear danger to the country's nascent democracy that is close to failure of leadership is personal and patronage rivalries. Lack of moral, character, and ethical values can be linked with personal and patronage rivalries. Morality is the science of right and wrong, and the absence of these values will not produce good leadership. The inordinate ambition and desperation of politicians may plunge the country into another crisis that will not augur well for the hope of democracy and security in Nigeria. Nigeria's political leadership has been distributive rather than productive in orientation, wasteful, and corrupt in political and economic management, which has led to major security problems like terrorism, ethnic militias, and socio-economic agitations, among others.

#### **Theoretical Framework:**

##### **Theory of Planned Behavior (TPB)**

The theory of planned behavior was first developed by Ajzen (1991) as an extension to reason-action theory (RAT) by Ajzen and Fishbein. The theory was propounded because of the failure of the concept theory. The theory came into being in order to plan and predict the behavior of an individual. TPB is considered one of the major theories used in the study of intention (Fini, Grimaldi, Marzocchi, & Sobrero, 2009). Understanding the behavior of an individual can be done by identifying some key determinants: attitude, subjective norms, and perceived behavioral control. The precedence mentioned above highlights the desirability of executing the behavior,

while the last one explains how an individual can control the behavior (Krueger, Reilly, & Carsrud, 2000). In other words, the higher the attitude, subjective norms, and perceived behavioral control of an individual, the higher the possibility of becoming an entrepreneur. It is believed that the more we understand the antecedents of the intention, the more it is possible for us to predict behavior and attitude. Several studies have used the theory of planned behavior, which is considered important in determining entrepreneurial behavior; examples are Krueger and Carsrud (1993). For instance, Douglas and Shepherd (2002), using the theory of planned behavior, report that attitude, subjective norms, and perceived behavioral control of an individual are very essential keys in determining the entrepreneurial intention of an individual.

### **Review of Empirical Studies**

Akanbi (2013) in his landmark study titled familial factors, personality traits and self-efficacy as determinants of entrepreneurial intention among vocational based college of education students in Oyo state, Nigeria using a correlation research design for the study where the participants include 470 vocational based students in the two public Colleges of Education in Oyo state, Nigeria. Using Pearson product correlation moment and multiple regression model, the results revealed that the independent variables examined jointly accounted for 74% of the total variance in entrepreneurial intention. The result also indicated that Parents occupation ( $t=2.45$ ), extraversion ( $t=2.44$ ), agreeableness ( $t=2.77$ ), conscientiousness ( $t=3.30$ ) neuroticism ( $t=-3.64$ ), openness ( $t=23.66$ ), and self-efficacy ( $t=3.99$ ) linearly contributed to the prediction of entrepreneurial intention whereas family income did not. The outcomes of the study were discussed and it was suggested that counseling practitioners should take care of these variables while handling issues relating to entrepreneurial intention among students. In the same vein, Akpan and Etor (2013) also conducted landmark research titled "Lecturers' Perception of Entrepreneurship Education as an Empowerment Strategy for Graduate Self-employment in South-South Nigeria. A survey design was adopted, and a simple random sampling technique was used to select 480 lecturers from a population of 4,389 academic staff from four (4) universities. The collected data were analyzed using descriptive statistics. The result of the study showed that lecturers were positive in their perception of the relevance of entrepreneurship education as an empowerment strategy for graduate self-employment. Male and female lecturers did not differ significantly in their rating of the relevance of entrepreneurship education to graduate self-employment. Lecturers rated information skills as the most important skill students should acquire in their preparation for entrepreneurship, followed by financial management skills and risk-taking skills. Large class sizes, inadequate funding, and the poor mindset of students towards entrepreneurship education were rated as the major constraints to effective entrepreneurship curriculum content delivery. Based on these findings, it was recommended that the government provide adequate funds to universities to enable

them to establish and equip entrepreneurial development centers for practical work, and adequate teaching personnel in both quality and quantity should be employed to teach entrepreneurial courses in universities.

Likewise, Ayodele (2013), in a similar study titled "Demographics, Entrepreneurial Self-Efficacy, and Locus of Control as Determinants of Adolescents' Entrepreneurial Intention" in Ogun State, Nigeria, investigated the relationship between sex, socioeconomic status, age, locus of control, entrepreneurial self-efficacy, and entrepreneurial intentions among some Nigerian adolescents. Using a sample of two hundred and ten (210) students randomly selected from senior secondary school (SSS 3) classes in seven (7) secondary schools in the Remo educational block of Ogun as a sample for the study Four (4) instruments were used for the collection of data: the locus of control behavior scale, the entrepreneurial self-efficacy scale, the entrepreneurial intention scale, and the demographic data collection scale. The collected data was analyzed using multiple regression analysis. Findings revealed that locus of control, entrepreneurial self-efficacy, and socio-economic status had a significant correlation with the adolescents' entrepreneurial intentions, while age and sex did not. Thus, the need for school counselors to build into the school's termly guidance programs motivational strategies capable of raising entrepreneurial intention or attitude in their students was recommended.

However, Abubakar, Kabir, and Nalado (2014), in a study titled "An Assessment of Students' Entrepreneurial Intentions in Tertiary Institutions," A case study from Kano State Polytechnic, Nigeria, which examines students' entrepreneurial intentions while survey research design was conducted at the School of Management Studies, Kano State Polytechnic The population of the study was composed of final-year HND students in various managerial or administrative programs. The study selected 312 samples using purposive sampling techniques. The study used the theory of planned behavior and Shapero's model to explain the entrepreneurial intentions of the students, as used in other studies. The regression method was used to examine factors influencing the entrepreneurial intentions of the students. More so, in order to determine how students differ on their entrepreneurial intentions, an analysis of variance (ANOVA) was employed. The results show that perceived desirability has a statistically significant relationship with entrepreneurial intention, while perceived feasibility has no significant relationship with entrepreneurial intention. The result also indicates that both perceived desirability and perceived feasibility are not determinants of students' entrepreneurial intentions.

Ekundayo and Babatunde (2014), using the random stratified sampling of 120 undergraduate students from Landmark University's 2013–2014 session, reported that: The exposure to entrepreneurship education influences students' intentions of

becoming self-employed. It was, however, discovered that most students were not very confident about their intentions due to fear of capital, failure, and a lack of experience in business management. The study concludes that despite knowledge of entrepreneurship education as a contributing factor in the reduction of unemployment, Nigerian youth require additional supports to overcome the foreseen challenges. Eburu (2015) examined the factors affecting the entrepreneurial intentions of the final-year undergraduate students of business administration at a selected Turkish university and the relationship between the success levels of the students in the entrepreneurship class and their entrepreneurial intentions. The study found a significant positive correlation between the students' success levels in the entrepreneurship class and their entrepreneurial intentions. Besides, it was found that the students with a self-employed father have higher entrepreneurial intentions in comparison with those whose fathers are not self-employed.

### **Findings**

The review of the literature revealed that the major socio-economic problem facing leaders, particularly in Africa, is the growing number of unemployed youths roaming the streets. The review shows that there are increasing numbers of youth without jobs, thereby affecting their well-being and national security. The research findings from most of the previous studies conducted indicated that offering an entrepreneurship education course aids students in developing a favorable entrepreneurial attitude and also has a positive effect on students' intentions for new venture creation. Thus, the current inclusion of entrepreneurship education in the school curriculum is a welcome development. This is because it will be helpful in training, reorienting, and motivating students toward entrepreneurial activities. The intentions of the students may be awakened and geared toward business start-ups at the end of their university studies. The theory of planned behavior (TPB) is therefore appropriate for explaining the antecedents of entrepreneurial intentions and subsequent behavior.

### **Conclusion**

From the above review, it can be deduced that this paper has reviewed different studies examining mostly the importance of entrepreneurship education on the entrepreneurial intentions of students and the channels through which it may benefit the economy. If entrepreneurship education actually contributes to the entrepreneurial intention of students, then the sustainability of entrepreneurship education would be a meaningful activity for solving the security challenges, and a way of achieving its sustainability is by identifying those factors contributing to it with a view to ensuring its enhancement and a conducive business environment.

### **Recommendation**

Fighting terrorism requires a collective effort by all Nigerians; it should not be left to



the security agents alone. Every Nigerian must see security as a collective responsibility and should be willing to volunteer information whenever the need arises. To address the perennial security challenges and their effects on Nigeria's business environment, the need for the implementation of people-oriented policies and programs such as entrepreneurship education, counseling the trainees, and a review of Nigeria's national security policy is strongly advocated for maintaining and implementing internal security measures for a conducive business environment.

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## Chapter 11

# Exploring Regional Clusters of Industries in Countries Markets Based on Porter's Diamond Model: Strategies for Developing African Rural Economy

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### Abstract

**G**lobalization entails the increasing integration of economies around the world through the introduction of barriers to international trade such as tariffs, import quotas, and export fees. Due to their reliance on the export of primary commodities and specialization in a constrained number of exports, the majority of less developed nations in light of Porter's Diamond Model and the significance of regional industry clusters, the goal of this study is to present an overview of the key sources of national competitive advantages. The study uses a desk research approach, in which a number of journals, test books, and other publications were examined according to the study's theme. The results showed that clusters can form and grow naturally due to certain advantageous constellations in a region, independent of any involvement from the government. On the other hand, the diamond model suggests that in order to increase the competitive advantage of the country, the government may attempt to influence cluster growth and launch clusters by offering special benefits in a region. The study came to a conclusion and suggested that favorable site-related variables in regional clusters, such as specialized suppliers, infrastructure, or customers, should be encouraged in order to promote the establishment of new firms. Actors in emerging business clusters discover new business possibilities earlier as a result of outsourcing and specialization.

**Keywords:** Regional clusters, Industries, Markets, Porter's diamond model, African rural economy

### **Statement of the Problem**

Trade remains an important channel for less developed countries to harness the gains from globalization and drive domestic structural change. Nigeria, for example, has natural comparative advantages, but the overall slow pace of development is due to a lack of urgency and understanding of the potential for free zone operations to create a new Nigeria in line with best international practices. Due to improvements in communications and technology as well as the liberalization of financial market forces through the deregulation of domestic markets, privatization, and the gradual removal of the government from economic management, one current future of the global order is the international mobility of capital. Less developed nations continue to rely heavily on trade as a means of capturing the benefits of globalization and enacting structural change at home. Nonetheless, the majority of the less developed nations depend on the export of primary commodities and are highly specialized in a very narrow range of exports.

### **Objective of the Study**

To present the characteristics of emerging country multinationals based on Porter's Diamond Model and the significance of regional industry clusters, and to provide an overview of the primary sources of national competitive advantages.

### **Methodology**

The study uses a desk research approach where relevant papers from multiple sources, including journals and textbooks, were analyzed.

### **Literature Review**

#### **National Competitive Advantage**

According to Bawa (2019), the mantra of globalization today is so revolutionary that many governments have to include their demands in the terms of any pre-negotiations with nations. By establishing their activities in nations with certain market conditions, multinational firms can profit from favorable environmental conditions. MNCs have a wide range of potential locations to choose from as the globalization of international markets grows and the liberalization of markets makes cross-border transactions simpler. Locations having a strong national (or regional) competitive edge are the most desirable to MNCs. The degree to which a nation is able to offer its population increasing affluence is reflected in the level of that nation's competitiveness. The economic productivity of a country has a direct impact on its level of affluence. A country's prosperity can increase if it can increase productivity.

Porter (1990) makes the following claim in this context: "National prosperity is made, not inherited." Due to the increased level of international competition, nations must also market themselves as desirable locations for investment and trade. According to

this theory, in order to attain sustainable growth, which serves as the cornerstone for a country's long-term economic prosperity and wealth. The degree to which a nation is able to offer its population increasing affluence is reflected in the level of that nation's competitiveness. The economic productivity of a country has a direct impact on its level of affluence. A country's prosperity can increase if it can increase productivity. Porter (1990) makes the following claim in this context: "National prosperity is made, not inherited." Due to the increased level of international competition, nations must also market themselves as desirable locations for investment and trade. According to this theory, in order to attain sustainable growth, which serves as the cornerstone for a country's long-term economic prosperity and wealth, each nation must investigate its possible sources of competitive advantage.

**Table 1: Global Competitiveness Index Ranking 2013-2014**

Country/Economy	Rank	Score	Country/Economy	Rank	Score
Switzerland	1	5.67	Austria	16	5.15
Singapore	2	5.61	Belgium	17	5.13
Finland	3	5.54	New Zealand	18	5.11
Germany	4	5.51	U. Arab Emirates	19	5.11
United States	5	5.48	Saudi Arabia	20	5.10
Sweden	6	5.48	Australia	21	5.09
Hong Kong SAR	7	5.47	Luxembourg	22	5.09
Netherlands	8	5.42	France	23	5.05
Japan	9	5.40	Malaysia	24	5.03
United Kingdom	10	5.37	Korea, Rep.	25	5.01
Norway	11	5.33	Brunei	26	4.95
Taiwan	12	5.29	Israel	27	4.94
Qatar	13	5.24	Ireland	28	4.92
Canada	14	5.20	China	29	4.84
Denmark	15	5.18	Puerto Rico	30	4.67

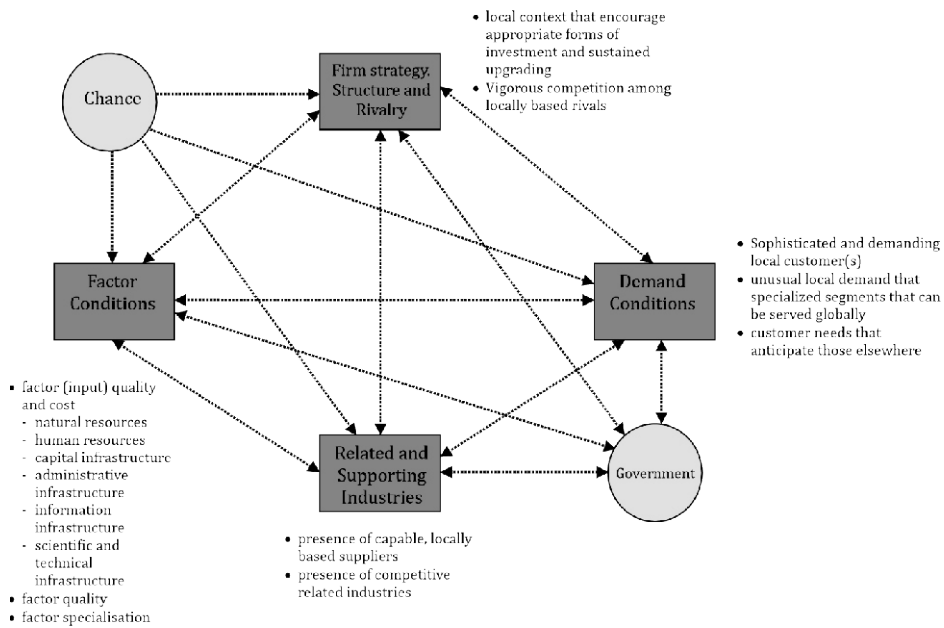
Source: World Economic Forum 2013, p. 15.

### Porter's Diamond Model

Although the GCI's fundamental concept of competitiveness refers to the economy as a whole, the competitiveness patterns that apply to various industries vary. No country will be strong in all or even the majority of industries. Porter (1990a; 1990b) made an effort to explain why a country excels internationally in a particular industry at the industry level. He identified four characteristics that help or hinder the development of competitive advantage based on a thorough investigation of 100 industries across ten countries: (1) factor conditions, (2) demand conditions, (3) related and supporting industries, and (4) firm strategy, structure, and rivalry. These four

characteristics determine a country's success in international competition and the climate in which local businesses compete. They combine to form the diamond (see Figure 1), a system of mutually reinforcing qualities where the impact of one attribute depends on the status of the others. This is a quick explanation of each of the four factors that contribute to national competitive advantage.

**Determinant of National Competitive Advantage: Porter's Diamond Model**



Source: Porter, 1990.

**Factor Conditions**

The nation's ownership of the production factors is the diamond's primary component. According to Heckscher-factor Ohlin's proportions hypothesis, each nation has a relative surplus of particular factor endowments. Porter distinguishes between fundamental and sophisticated variables in his diamond model. Basic factors include things like geography, climate, natural resources, and demographics, whereas advanced factors are more complex and include things like a country's knowledge base (such as scientific, technical, or market knowledge), the nation's transportation and communication infrastructure, or a highly educated and skilled labor force (Rugman & Collinson, 2012). The advanced variables are viewed as being the most important for competitive advantage in the diamond model. These elements are the result of investments made by people, businesses, or the government and can be



produced through education, research, and innovation. The fundamental premise is that a country must continuously improve or modify its factors. Basic factors give the nation a head start, which can then be strengthened by investing in advanced factors. On the other hand, limitations in fundamental factors require investments in advanced factors by nations (Porter 1990b). Hence, improving a country's advanced factors, such as its infrastructure or educational system, is thought to increase its competitive advantages.

### **Demand Conditions**

The type and extent of domestic demand for the goods and services provided by a sector are referred to as "demand conditions." The strength and sophistication of domestic customer demand are the key features here. According to Porter (1990b), businesses are most attuned to the requirements of their immediate clients. Hence, the characteristics of the companies' products are mostly shaped by domestic market demand. More pressure is placed on companies to innovate, become more efficient, and improve product quality as local consumers become more sophisticated and demanding. Hence, it is believed that when consumer sophistication in their home markets rises and local vendors come under more pressure, their competitive advantage will grow (Hill, 2013). The size of the home market is crucial because it helps businesses attain economies of scale and experience curve advantages, even though the nature of home market demand mostly pertains to pressure to enhance local enterprises' performance. When scale economies restrict the number of production sites, this becomes even more crucial. In this instance, the country's desirability as a potential location is significantly influenced by the size of its market. Furthermore, empirical data demonstrates that when their early (big) home market gets saturated, efficient enterprises are frequently driven to explore possibilities abroad. Some businesses have scale advantages thanks to their home markets that they can employ in the global market (Hollensen, 2014).

### **Related and Supporting Industries**

It is seen to be very helpful for an industry to develop competitive advantages to have a business environment with comparable suppliers, rivals, and complementary businesses. An industrial cluster is a group of businesses, suppliers, and supporting businesses that are geographically concentrated in one place (Porter, 2000).

### **Firm Strategy, Structure, and Rivalry**

This part of the diamond corresponds to the firm-based theories of internationalization that focus on the actions of individual enterprises. The formation, organization, and management of businesses as well as the nature of domestic competition are significantly influenced by national context and national circumstances (Porter, 1990b). The ability of businesses to compete in the global

economy is impacted by domestic competition. Not only do advantages that result from a country's factor endowment or characteristics of home market demand automatically disappear in the presence of local competitors, but companies are also more forced to improve their operational efficiency and adopt new technologies as domestic competition increases and rivals in the home market become more potent. Only the most effective businesses survive under conditions of intense competition in their native markets. Additionally, this is connected to ongoing pressure on businesses to innovate and do better (Griffin & Pustay, 2013). Along with differences in competitive pressure between nations, there are also notable differences in managerial techniques, organizational structures, corporate objectives, and personal performance targets. These distinctions cause the corporations' worldwide strategies to diverge. Porter also contends that distinct managerial systems are required for success in each of the many industries. So, if a nation's businesses adhere to a particular managerial system, this can only succeed in a few distinct industries. Since diverse management ideologies affect the capacity to create national competitive advantage, such differences also play a significant role in the diamond model (Porter, 1990b).

#### **The Role of Chance and Government**

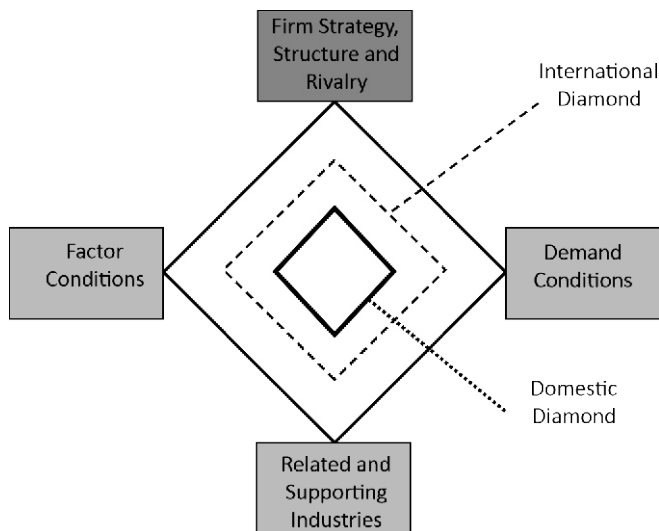
As was already established, the diamond model's fundamental tenet is that competitive advantage can be generated. Consequently, by methodically enhancing each component of the diamond, nations can impact their comparative advantage. Given that the basic assumption of the diamond model is that "firms, not states, compete in international markets," it is crucial to underline that government interventions must be evaluated in terms of how they affect local corporate operations (Porter, 1990a). Using strategies like subsidies, investments in the educational system, monetary and fiscal policy (e.g., tax incentives or low interest loans), the development and maintenance of a strong infrastructure (e.g., IT, communication systems, transportation), antitrust regulations, or enforcing product and safety standards, governments can, for example, cultivate new and superior factor endowments, influence the nature of local competition, home market demand, or clustering of firms. One must remember, though, that such well-intended government initiatives can also backfire and result in the development of a domestic industry that is "sheltered" and unable to compete in the global market (Rugman & Collinson, 2012).

The diamond model also acknowledges the role of chance in forging a competitive edge. Unfortunately, this influence of chance is unpredictable due to its inherent hazard. For instance, chance has an impact on the development of novel concepts or innovations. A nation's competitive edge can be significantly impacted by wars, large changes in the global financial markets, discontinuities in input costs (such shocks to the price of oil), or significant technical advancements.

#### **Evaluation of the Diamond Model**

The competitive advantage of a country in a particular industry is influenced by each of the four components of the diamond model, with the status of each element relying on the other three. Typically, each of the four factors must be present in order to create competitive advantage, with deficits in any one factor limiting an industry's capacity for development and modernization. Although the diamond is thought to be a self-reinforcing structure, the roles of two other forces, government and chance, are equally significant. The function of MNCs in the diamond model is the subject of a contentious discussion. Multinational activity should be considered as a third outside variable, according to some researchers (e.g., Dunning 1993; Moon; Rugman & Verbeke, 1998). This is because MNCs' competitiveness is influenced by the diamond's configuration in countries other than their home countries, and this in turn affects the competitiveness of the home country. As a result, Porter's original diamond model has been expanded into the generalized double diamond model, which formally incorporates multinational activity. (Moon, Rugman, & Verbeke, 1998; also refer to Moon, Rugman, & Verbeke, 1995.)

**Figure 2: The Generalised Double Diamond**



**Source:** Adapted from Moon, Rugman and Verbeke 1998.

The generalized double diamond is depicted in Figure 2. "The size of the domestic diamond varies depending on the size and competitiveness of the country, whereas the size of the global diamond is fixed for a foreseeable long period of time. Between

these two diamonds, there is a global diamond that depicts the competitiveness of the country as measured by both domestic and global factors. International or multinational activities are thus represented by the difference between the international diamond and the domestic diamond. Foreign direct investment (FDI) is a component of both domestic and international multinational activity (Moon, Rugman & Verbeke, 1998).

### **Stages in National Development**

The three growth phases of a country's competitive development can be distinguished using the diamond model (Porter, 1990a):

1. Stage driven by factors: The sectors in this first stage are those that derive all of their advantages from the country's factor endowments, primarily from fundamental production factors like natural resources (e.g. mineral deposits). International success is possible for many industries, although price is their main point of competition. These advancements result from both internal and external innovation, including innovation carried out in conjunction with or with support from suppliers and businesses in related industries. This paradigm mostly applies to the stages of an economy's development. Since there are likely to be industries (or businesses) operating at each stage in all countries, countries typically span two or more stages in this model.
2. Investment-driven stage: This stage denotes initiatives to upgrade the nation's industry as businesses invest in cutting-edge equipment and more productive facilities.
3. Innovation-driven stage: The third stage is defined by the development of new technology or (production) methods, in contrast to the second stage, which is dominated by investment in current, but already existent technology.

### **Competitive Advantages of Emerging Countries**

The prominence of these ambitious nations within the business plans of the majority multinational corporations has been further increased by the increasing integration of developing economies into the global economy (Rugman & Collinson, 2012). By 2020, the total economic output of the three largest economies among the newly industrialized nations – Brazil, China, and India – will surpass that of Canada, France, Germany, Italy, the United Kingdom, and the United States, according to previously released predictions (United Nations Development Programme, 2013). The foundation of many competitive advantages emerging countries has over highly developed countries can still be considered to have been summed up by John Maynard Keynes as early as 1926, though in a different context: "The political problem of mankind is to combine three things: Economic Efficiency, Social Justice, and Individual Liberty" (Keynesm 2009). The so-called developed economies have made significant progress in terms of labor conditions, environmental protection, human

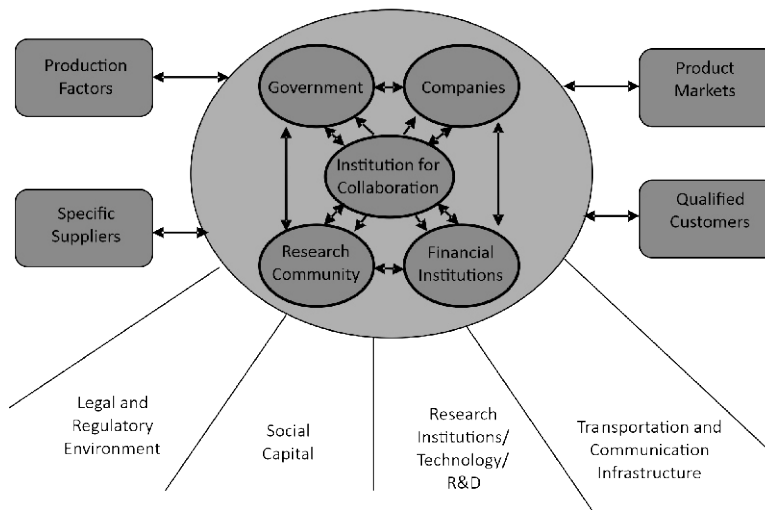
rights, animal protection, and social insurance since the process of industrialization began in the 19th century. These successes have helped promote social justice and individual freedom, on the one hand. Nonetheless, they have hindered these nations' efforts to achieve maximum economic efficiency.

The majority of developing nations, particularly the so-called BRICs, have succeeded in converting this lack of social and political development into a significant competitive advantage in the initial stages by providing low labor costs, an almost limitless supply of nonunionized workers (e.g., China, India), almost unrestricted access to energy (e.g., Russia), and valuable raw materials like rare earth elements (e.g., Brazil) (Sheth, 2011). While doing so, these nations merely demand meager environmental or workplace health and safety standards, meager taxation, and a flimsy commitment to corporate social responsibility (Deng & Li, 2012; Humphries, 2013; Meulen, Rodgers & Menon, 2013). These competitive advantages are strengthened even further by ongoing infrastructure upgrades and dropping logistics and transportation costs. They are now enhancing social and ecological norms, training and educating the workforce, and, in the final stage, making significant advancements in research and development by combining cost benefits with abilities. Emerging nations now play a significant part in MNCs' distribution plans in addition to their sourcing and manufacturing strategies as a result of this economic expansion. While many product categories in highly developed countries are becoming increasingly saturated, rising affluence in emerging economies allows an increasing number of consumers in these nations to purchase Western goods from well-known brand manufacturers like BMW, Mercedes Benz, or Apple (Jansson, 2007). The expanding presence of developing country multinationals in the international market is a significant consequence of emerging countries' competitive advantages.

### **Regional Clusters**

Regional clusters are significant components of the diamond model: "We define a cluster as a geographically close set of interlinked businesses, suppliers, service providers, and related institutions in a single field, linked by externalities of various forms" (Porter, 2003). As a result, clusters are closely related to the Porter's diamond model dimensions "related and supporting industries" and "firm strategy, structure, and rivalry."

Figure 3: Actors in Regional Clusters



Source: Adapted from Sölvell, Lindqvist and Ketels, 2003.

Suppliers of specialized inputs (such as parts, machinery, and services) and providers of specialized infrastructure can both be found in clusters (see Figure 3). Typically, they are expanded upstream to customers and laterally to businesses in related industries and complementary industries thanks to technologies, shared resources, or specialized skills. Frequently, clusters also include governmental and other organizations that offer specialized research, education, training, and technical support (such as universities, think tanks, or organizations that develop standards) (Porter 1998, p. 78). As a result, clusters have an internal constellation that encourages co-operation and competition (also known as "co-opetition"). While competition arises between competitor businesses that are physically close to one another, cooperation primarily refers to vertical channel partnerships with related businesses, adjacent industries, or regional institutions.

#### Advantages of Regional Industry Clusters

The benefits of such a grouping of businesses come primarily from the presence of a specialized infrastructure, factors of production that are industry- and sector-specific, skilled labor in the particular professional field, information and knowledge synergies, and access to suitable or superior inputs. An industry will benefit from improved communication and the sharing of cost-cutting ideas and inventions with its suppliers if it is situated close to its suppliers. Geographic proximity, which facilitates

tight working ties, is the fundamental cause of this. With enterprises having the chance to influence the technological efforts of their suppliers, this results in benefits from short communication chains and a quick and consistent flow of information, which can help to accelerate the speed of innovation (Cavusgil, Knight & Riesenberger, 2014). If the suppliers or the complementing enterprises themselves are globally competitive, clustering is most advantageous to the nation's industry (Porter, 1990b).

### **Cluster Lifecycle**

There is no one optimum gauge for cluster activity at the moment, and there is no established aggregation method by which to develop one, according to Bergman's (2008) thorough review of cluster lifecycle concepts (Bergman, 2008). There is no doubt that a cluster's internal factors, such as industry classification, the rate of innovation, or flows of tacit knowledge, as well as external factors, such as national legal systems, regional geographic features, or global resource markets, influence the cluster's characteristics and growth in a way that results in greatly disparate cluster life spans and very different rates of cluster evolution. Although not all clusters go through the lifetime in complete and not all enterprises within a cluster must experience the lifecycle synchronously, cluster development can typically be presented as an ongoing process with clusters moving through a number of stages. Therefore, Bergman (2008) suggests using the conventional life cycle as a discussion template in order to better understand the relevant lifecycle concepts. The conventional life cycle essentially consists of the following three phases, supplemented by a number of sub-phases: existence/emergence, expansion, and exhaustion.

In light of these findings, it makes sense to suggest a lifecycle cluster development process that takes place in six phases (see Figure 4) (Schramm-Klein, 2005; Sölvell, 2008):

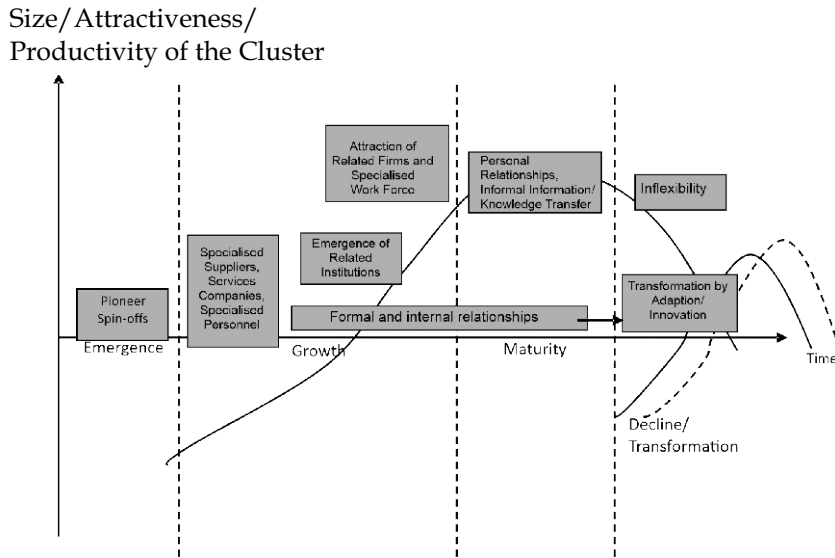
1. Emergence of pioneers: Cluster development is typically sparked by a number of factors, including a region's natural resources, specialized expertise (found, for example, in colleges or research institutions), specialized consumer demand, or technical innovation. These various drivers can be viewed as sources of competitive advantage in accordance with the diamond model. Main businesses that concentrate on utilizing these advantages start to appear. When a cluster develops, more and more businesses often spin-offs of the original firms emerge that concentrate on these distinct competitive advantages. As a result, a grouping of businesses with comparable production structures develops. This improves local competition, which encourages innovation and improvement among local rivals.
2. Developing specialized suppliers: In the second phase of the lifecycle,

specialized suppliers and service providers settle in close proximity to the primary businesses. This can be partially due to local outsourcing activity. Moreover, a specialized job market is developing at this stage of cluster development. The specialization of businesses and suppliers, which is linked to lower transaction costs, access to cheaper and more specialized inputs (like parts, machinery, or business services), as well as access to highly specialized personnel, leads to improvements in quality and increased efficiency in the sector. These benefits, which are a significant source of competitive advantage resulting from the external impacts of company clustering, are unavailable to rivals situated in less agglomeration locations.

3. **Emergence of linked institutions:** The cluster moves into this stage as related institutions, including universities, research centers, or governmental organizations, locate there. These organizations promote neighborhood collaboration, intergenerational learning, and the local adoption of technological advancements. As a result, a knowledge base particular to the cluster is created.
4. **Attraction of linked businesses and a specialized workforce:** The cluster's externalities lure in related businesses and a specialized labor. This therefore results in an extra improvement in cluster externalities and cluster attractiveness.
5. **Growth and improvement of informal and personal connection quality:** This stage is characterized by the growth of informal and personal relationships among cluster members. These connections promote unofficial collaboration and knowledge sharing among the cluster's businesses and institutions. The dissemination of tacit knowledge is crucial in this situation.
6. **Cluster decline or transformation:** Most regional clusters move into the decline stage following a period of strong development. Technological, institutional, or societal variables that initially encouraged favorable development can later generate rigidity or even inertia, preventing clusters from moving further. In such circumstances, clusters become stuck in their specialization and are prevented from innovating further. Yet, if these inflexible phases can be avoided, clusters will eventually need to adjust to changes in the market, business operations, or technological advancements. As a result, the clusters change and take on new forms by concentrating on various or novel activities.



**Figure 4: Cluster Lifecycle**



**Source:** Adapted from Schramm-Klein, 2005; Menzel and Fornahl, 2010.

**Discussion of Findings**

When it comes to Cluster Initiatives, clusters can form and grow just due to favorable regional constellations, independent of any governmental intervention (e.g. factor endowment or specific technology). The diamond model, on the other hand, suggests that governments may attempt to influence cluster growth and to launch clusters by offering special benefits in a region in order to increase the competitive advantage of the country (or of specific regions). Cluster initiatives are planned attempts to increase a cluster's growth and competitiveness. Private business, government agencies, and/or academic institutions are all involved (Sölvell, Lindqvist, & Ketels, 2013). To encourage and strengthen cluster growth, public authorities might utilize a variety of strategies, as indicated by Sölvell (2008; see also Boja, 2011):

- i. Improvement of the pool of talents available through, for example, vocational training or management education Measures to expand a cluster include encouraging inward investment into the area or creating incubators to foster the establishment of new businesses.
- ii. Internationalization: promoting a company's global expansion, such as through export marketing
- iii. Promoting business interaction between companies through increasing dialogue and interaction

- iv. Promotion of innovation: promotion of new products, services, and manufacturing techniques, for instance, through improved networking and collaboration between businesses or between businesses and research institutions (e.g. university spin-offs)
- v. Improvement of environmental conditions: Improvement of business-friendly conditions, such as by enhancing the administrative and legal framework or the physical infrastructure.

These tools are primarily intended to boost competitiveness, growth, and innovation by fostering an atmosphere that is supportive of functioning within the cluster. In this regard, one of the key goals of public authorities is to increase the attractiveness of a cluster for everyone within the cluster.

### **Conclusion and Recommendations**

Companies and nations both work to gain a competitive edge in order to increase their influence in the world market. Porter's double-diamond model, which was modified from his original diamond model to account for all industries in a nation, is a crucial tool for analyzing competitive advantage. This diamond model's key tenet is that a company's success on a global scale is heavily influenced by its home country's features. The competitive advantage of a corporation is the consequence of a successful fusion of global conditions and corporate strategy. It is crucial to remember that it is up to each company to take advantage of the opportunity. The unique circumstances in the home base can create an environment in which firms can achieve an international competitive edge.

The significance of regional clusters is emphasized in this context

Encouraging the establishment of new businesses: Positive site-related features in regional clusters, including specialized suppliers, infrastructure, or clients, encourage the establishment of new enterprises. Outsourcing and specialization also help new business cluster actors see new business prospects early, bringing forward, for instance, spin-offs.

Increasing productivity and effectiveness

Because of how clever the competition is, businesses must constantly raise productivity. In addition, synergies from the sharing of staff, facilities, and specialized inputs among cluster enterprises reinforce this development.

Speeding up the invention process and flow of ideas: Due to access to specialized resources, information exchange, strong communication, and cooperation amongst cluster members, potential areas for innovation are frequently identified early and move forward more quickly in regional clusters.

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## Chapter 12

# Local Governments as Centres of Development in Nigeria: Historical Perspectives and a Prognosis for the Future

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### Abstract

**D**evelopment from below is fast gaining wide recognition as a strategy for accelerating social and economic progress among developing countries. In Nigeria, this trend is being manifested by the government's commitment to be more responsive to the needs of the people through such programs as the 1976 nation-wide Local Government Reforms, whose underlying philosophy was to make the local governments the basic geographical and cultural centers for both local and national development. The chapter interrogates the roles of local governments as centers of development in Nigeria, the historical perspectives, and the prognosis for the future. The study relied on secondary sources of data collection and adopted Dudley Seers' Theory of Development as its analytical framework. The study found that the problems bedeviling the local governments in the country have constrained them from functioning as effective centers of development. The chapter recommended a paradigm shift in the conceptualization of local governments from mere governmental bureaucracy to a more dynamic institution capable of responding to their immediate and wider environments as they throw up challenges of development.

**Keywords:** Development, Centre, Recognition, Philosophy, Perspective, Environment.

## **Introduction**

The institution of local government exists in all political systems across the globe, although it may go by different appellations. This is because all political systems strive to achieve effective and efficient service delivery at the grassroots level through the instrumentality of local governance institutions. Local governments are thus widely acknowledged as viable instruments for socio-economic service delivery to the people as well as the general transformation of the rural sector. They are strategically positioned to fulfill these functions because of their proximity to rural dwellers, responsiveness, and simplicity of operations. The physical and psychological distance between officials of the other levels of government (i.e., state and federal) and the rural people frustrates efforts to make local people fully identified with government programs. People at the grassroots level are only able to understand and recognize local governments because they can feel their presence and impact on the day-to-day activities of their rural lives. The proximity of the local governments to the local people placed them in a position where they could easily articulate and aggregate the demands of the local people. Hence, local governments are attuned to the needs and aspirations of the people at the most basic level of society, especially in Nigeria, where no less than 80% of the total population are rural dwellers (Elaigwu, 2015).

Since the drive towards local government reforms in the early 1950s, as Smith (1977) recalled, Nigeria has been emphasizing the roles and responsibilities of local governments and their subordinate district and village councils in promoting change and development in rural areas. This role of development agent has since been re-echoed or re-emphasized at various points in time. However, despite this, the importance of the call was not significantly appreciated until the crisis of hope in national development, which heightened during the oil boom period. According to Takaya (1983), the oil boom clearly demonstrated that no amount of expenditure on development projects made at the national or state level can make the country achieve sustained growth and development unless the people at the grassroots are adequately involved. The local government is thus justifiably the most appropriate organization through which a good deal of the funds for economic and social development should be channeled. At the same time, as Elaigwu (2015) noted, Nigeria realized that so long as the structure and modus operandi of local governments were allowed to continue on the pre-1976 models, this developmental objective would not be achieved within the desired time, if at all, no matter the amount of money poured into them, hence the need for the 1976 nation-wide local government reforms. The pre-1976 local governments in Nigeria were anything but local in that such local governments not only lacked specific functional responsibilities but also had their few functions encroached upon by the state and federal governments. Accordingly, it became necessary to drastically restructure the prevalent system of local government in Nigeria and adopt a fresh perspective in the search for a system in which local

governments become centers of development in the country.

Following the landmark reforms of 1976, the local governments were charged with doing precisely what the word 'government' implies, i.e., governing at the grassroots or local level. Thus, the aims of the reform include, among others, the following:

1. To make appropriate services and development activities responsive to local wishes and initiatives by delegating them to local representative bodies.
2. To facilitate the exercise of democratic self-government close to the local levels of Nigerian society and to encourage initiative and leadership potential.
3. To mobilize human and material resources through the involvement of members of the public in their own local development, i.e., local citizen participation.
4. To provide a two-way channel of communication between local communities and the government (both state and federal).

The justification for the reform was an attempt to bring the government closer to the local people, who constitute the larger majority of the Nigerian population. It is only at the local level that the government comes face-to-face all year with the majority of Nigeria's people. Local government in Nigeria, therefore, represents a critical and important area where a lot of contributions to the solution of the myriad of problems bedeviling the country could be located and addressed. Globally, local governments are vested with the power to tackle issues that are considered local to the communities within their areas of jurisdiction (Zoaka, 2011). The local government, if properly conceived and given the necessary structure and powers, can promote order, good governance, and the progress of local communities, thereby setting them on the path of development. Local governments in Nigeria house over 80% of the population; hence, they represent the center of power, progress, and development at the grassroots and for the nation at large. This study derives from a concern with contemporary Nigeria's developmental challenges, especially the unwarranted neglect of the rural areas of the country. In contrast with the surging urbanization in Nigeria, the rural areas are in total stagnation, wallowing in extreme lack, abject poverty, and underdevelopment.

### **Conceptualization of Local Governments as Centres of Development**

Local government is a statutory body with the power to regulate and promote grassroots development, including the allocation of resources. The local communities look to the local governments for assistance in providing materials and advice in the process of executing community projects. Community development stimulates the self-help efforts of the people, with as much reliance as possible on their own initiatives. Local governments are typically expected to provide the equipment, technical staff, and necessary funds for the execution and sustenance of such projects.



In the same vein, the local governments need the support, participation, and cooperation of the local people for the effective discharge of their duties. The close interdependence of local governments and grassroots development suggests that the key requirement for successful implementation of development programs at the grassroots level is the existence of functional and popular local government institutions. In this sense, the hallmark of local government administration is working with and helping the people rather than focusing on the maintenance of law and order. Accordingly, the primary role of local governments as centers of development in Nigeria borders on providing guidance, direction, and assistance, which are essential components for the successful initiation and conduct of grassroots development. The local governments must consider training and reorienting local government staff in order to bring about a total transformation of the rural setting. Training should attempt to shape attitudes that are conducive to the expected new roles of local governments as centers of development, not only for the staff directly employed in community development departments but for the entire personnel in the council administration having to deal with people-centered activities.

This will allow for a mutual reinforcement of the functions of the local governments and development activities based on rural development. Development is a process of fundamental change that aims to improve the social and material conditions of people's lives. Because of the powers and resources at their disposal, local governments are typically expected to perform crucial mobilizing, articulating, and executing roles in the development process at the local level. As a result, the ways in which local governments approach development and the objectives they pursue largely determine whether change is inhibited or facilitated in a given society. Development at the grassroots level through community efforts aims to improve the material and social conditions of rural people through their own initiative. This approach to development, otherwise known as self-help efforts, generally attempts to strike a balance between satisfying demands for amenities and the need to raise the income and productivity of rural society. According to Aliyu (1983), most local government officials often assume that the end result of community self-help efforts is material improvement. As a result, great emphasis is being placed on infrastructure, such as the building of roads, schools, dispensaries, and community halls, while little or no attention is given to improved methods of production or basic educational programs. Although physical improvements are no doubt an essential aspect of community development, the content of community development is broader and encompasses efforts to promote the growth of the people themselves through education, training, and a broadening of general horizons. In addition, popular participation is an essential element in the successful operation of community self-help schemes, as the involvement of the people at the stages of project identification,

planning, and execution is a crucial aspect of grassroots development. Community development officers are therefore often advised to avoid imposing their own ideas concerning what is good for any given community.

In recent years, Nigeria has undertaken, often in conjunction with the World Bank or other international organizations, a variety of costly large-scale development projects that directly affect hundreds of thousands of people (Aliyu, 1983). These projects have been predominantly agricultural in nature (irrigation schemes, integrated rural development schemes). Others are urban projects such as water and sewage systems, low-income housing, etc. These projects are usually planned and executed by the federal, state, or specialized project authority, many of which have profound effects at the local level. Here, local governments are usually not involved in the planning and implementation, if at all. However, with the phenomenal increase and acceptance of a bottom-up approach to development in developing countries, including Nigeria, the role of local governments as centers of development has become more exerting and decisive. The local governments are therefore charged with the responsibility of making appropriate services and development activities responsive to local wishes and initiatives by devolving or delegating them to local representative bodies. Others are to facilitate the exercise of democratic self-government close to the local levels of Nigerian society as well as mobilize human and material resources through the involvement of members of the public in their own development. To achieve these objectives, the local governments must possess detailed local knowledge for efficient performance and ensure community responsiveness and participation, including an extensive use of discretion or understanding of individuals. One of the greatest fallouts of this development has been the tendency to integrate community development activities and rural welfare programs into the local government system (Aliyu, 1983). The local governments are expected to provide the local organs through which development at the local level is to operate. Accordingly, the involvement of local governments in wider socio-economic and political functions directly contributes to local and national development efforts in the country.

### **Theoretical Framework**

There are two major ideological stands on which local government administration is based. These are the mobilization theory and the efficiency model (Zoaka, 2011). The Nigerian local governments are largely influenced by efficiency considerations or models. The neglect of the issues of mobilization explains why there is a complete lack of interest on the part of the local governments to mobilize both human and material resources for development. However, for the purpose of this study, Dudley Seers' Theory of Development is adopted to explain the seemingly poor performance of the local governments in the socio-economic and political development of rural Nigeria

due to several intervening factors that impede their activities. According to Dudley Seers (1997), development starts with people, their reorientation, organization, and discipline. In other words, development must be people-centered. This is because when the accent is on development, all human resources remain latent and untapped, and a society can be poor amidst the most opulent material resources. On the other hand, when a society is properly oriented, organized, and disciplined, it can be prosperous on the scantiest basis of material resources. Seers argued that the questions to ask about a country's development are basically three, the answers to which will determine whether there is development or not. These questions are as follows: (a) What has been happening to poverty? (b) What has been happening to unemployment, and (c) what has been happening to inequality?

As Seers (1997) argued, if the answers to these questions have declined from higher levels to low levels, there is no doubt that this has been a period of development. But on the contrary, where they are high, there is underdevelopment. Development cannot be said to exist where there is a preponderance of poverty, unemployment, and inequality. In other words, a decline in these three elements means development for the country concerned. In the context of Dudley Seers' Theory of Development, if Nigeria desires to achieve national development, the country should aim to develop rural areas or the countryside. This is because development must be people-centered, and the majority of Nigerians still live a life connected with the rural economy dominated by agriculture and pastoralism. Therefore, it is in the rural areas that a big enough difference to pull the country out of poverty could be found. However, successive governments in Nigeria since independence have failed to give development policies and programs a serious rural bias. This is in spite of the fact that it is only at the local level that the government comes face-to-face all year with the majority of Nigeria's people. Local governments are desirable and crucial at the local level to ensure the socio-economic and political development of rural areas. Over time, as noted earlier, reforms have been introduced in the local government system in order to strengthen the local government structures for development purposes at the grassroots. Indeed, as far as development issues are concerned, the local government is the closest government to the grassroots level of Nigerian society, where the majority of the people reside. It is therefore the most competent level of government that can assess the needs and aspirations of the local people and harness local resources to meet such needs. Local governments are expected to play a role in promoting the democratic coordination of development at the grassroots. They should mobilize popular support for innovation, initiate local projects, and resolve conflicting claims for important social services. Local governments could greatly help in collecting vital data that can be used in development processes at the local, state, and federal levels. This is because any development programs that require the use of data, e.g., on the registration of births and deaths, maternity clinics, dispensaries, and

primary schools, amongst others, can best be supplied by the local governments. Also, due to their proximity to the local population, local governments could help in no small way in activating the spirit of self-determination in the minds of the people at the local level.

There has been a paradigm shift in emphasis on the developmental process from urban-centeredness to a more localized rural setting. In the past, some analysts saw in the rural setting nothing but volatility and fluidity, reminiscent of the Biblical saying, "Can anything good come out of Nazareth?" However, it has become obvious today that there can be no meaningful development in Nigeria without the effective harnessing of the potentials of the rural areas in terms of human and material resources and integrating the same into the national developmental efforts. According to Elaigwu (2015), the majority of the Nigerian population are rural dwellers with a huge endowment of fertile land and mineral resources. The rural areas are the rich lands of the Nigerian state. They provide all the resources that feed the urban areas, yet they are the most neglected. The urban-rural dichotomy is worrisome. The gap between urban and rural centers has meant increasingly greater attraction to the urban centers and less attraction to the rural areas. Governments do not bother much about rural areas beyond the extraction of resources. But rural communities are the engine of development and must be unshackled from control by state governments to set their own priorities and goals. The participation of local governments in the economic planning and development of their respective areas of jurisdiction is constitutionally guaranteed. This facilitates the formulation of development plans that are in tune with the wishes of the people at the grassroots. This is in recognition of the fact that, to the majority of the rural population, the local governments are the most readily visible symbols of government. Living conditions in most of Nigeria's rural areas are barely tolerable by any standard. The present lopsided patterns of development in Nigeria in favor of the urban areas need to be arrested with a view to accelerating the rate of development in the rural areas.

As centers of development, local governments must observe the principle of localization, which implies that such a government not only has a local base but is also primarily concerned with providing local services and satisfying local objective needs. Localization through local governments includes the following characteristics without which local governments cannot be centers of development:

1. Constant communication between the governing structure and the community under its jurisdiction, and as such, the people are able to vocalize their needs.
2. Functional responsiveness and sensitivity of the governing body to the

- yearnings and aspirations of the communities under its jurisdiction
3. Representativeness of the structure of grassroots government to the communities.
  4. Accountability and responsibility of the groups of elected individuals who form the local government councils to the communities they are supposed to represent.
  5. Local citizen participation in the process of determining needs, assigning priorities, and managing local resources

The general tendency is that even though the 1976 local government reforms very laudably attempted to make government at the grassroots representative of local communities and thus sensitize them towards grassroots needs, the composition of the councils has defeated this aim. The adoption of Duddley Seers' Theory of Development in this study is informed by the relevance of the three basic questions embedded in the theory to the subject matter of the research work. Local governments as centers of development must necessarily be concerned with and focused on the socio-economic development of the rural people, where problems of poverty, unemployment, and inequality, among others, would be addressed with a view to reducing them to the barest minimum if not totally eradicated.

#### **The Challenges of Local Government**

The debilitating circle of local governments' ineptitude and decay in Nigeria is attributable to the perversion of several intervening factors. One of the immediate constraints facing local governments in the country is insufficient funds and a lack of manpower in the requisite quantity and quality. The local governments badly need top-level manpower to prosecute their various development programs. There should not be half-hearted measures on this critical issue; otherwise, the syndrome of executive paucity, which has hampered the efficiency of the local governments, will continue to haunt them for a long time to come. Indeed, it is no use to flood the local governments with money and materials, both of which are no more than passive agents of production. Left to themselves, they are inactive. The intervention of the human element or agency is therefore inevitable for their coordination and utilization for productive purposes. How well material resources are utilized is a function of the quality and caliber of the human agency involved. Also, the local governments cannot achieve any meaningful development without adequate financial resources. Most local governments in the country lack a strong financial base. Besides their inability to boost internally generated revenue sources, some state governors engaged in the diversion or theft of local governments' statutory allocations from the federation account. According to Omotoso (2022), Nigerians who keep tabs on the activities of state governors are aware of the sharp financial practices perpetrated by some governors against the local government councils in their respective states. It has been

asserted that whenever the monthly allocations to the three tiers of government are approved for disbursement, some state governments, under the pretext of joint projects, use their respective state joint allocation committees (JAC) to short-change their local governments, paying those fractions of what was statutorily due to them. To substantiate the allegation, Omotoso (2022) noted thus:

*Sometime in the outgoing year, the immediate past Chairman of Ado Local Government Area, Ekiti State cried out that the state government made her to sign for N100 Million, but she was eventually given only N10 Million for the local government she then administered.*

The problem facing some of the local governments is not so much the inadequacy of financial resources as maladministration and mismanagement of funds. The endemic corruption in the local government system continued to deny the councils the required financial resources for development. Under these circumstances, the local governments cannot be effective and responsive to the yearnings of the people. Since the introduction of the 1976 local government reforms, issues have been raised over the appropriateness of a standardized national system of local government in a heterogeneous country like Nigeria. Other issues raised include the adequacy of human and material resources available to local governments in coping with their responsibilities as well as the degree of autonomy they enjoy or should enjoy from state governments, among others. The well-intentioned efforts at local government reforms have been fundamentally flawed because hardly any of the local governments possess a viable bureaucracy, which is critical for the stability and performance of any level of government. As deep-rooted and firmly entrenched as some of these problems of the local governments are, there can be no quick-fix solutions. What is required is an informed and dispassionate re-examination of the issues, thereby provoking and stimulating reason rather than rashness; hence, a crucial milestone would have been reached in the continued search for democratic and people-oriented local governments, which would become centers of development in the country.

### **Conclusion**

It is the strong faith in the potency of local governments functioning as development centers to effectively mobilize and organize rural people to achieve meaningful development at the local level that informed the decision to undertake this study. The activities of the local governments as centers of development are expected to unlock and release the creative energies, talents, and skills of the local people for their own development. It is therefore imperative that local governance become more participatory and inclusive. The critical argument of this chapter is that meaningful grassroots development is essentially people-oriented. The bedrock of grassroots development, therefore, lies in the effective organization and mobilization of the mass

of the people. Accordingly, local governments, as centers of development, must adopt a mobilization approach to grassroots development. If properly implemented, the approach would unlock the potency of the productive forces of the rural economy for a general improvement in the material conditions of the people.

### **The Way Forward**

Nigeria's continued search for a more effective strategy for effecting integrated and sustainable grassroots development in the country is an indication of the failure of previous attempts. This is because most of such attempts have been project-centered rather than people-centered, with all efforts fundamentally directed at executing the government's identified goals without giving as much thought to those the projects were meant to benefit or even the role they could play in the execution and sustainability of such projects. It was essentially a commodity approach to rural development in which the rural people simply became relegated to being cogs in the wheel of rural development. Rural development programs in the past were therefore bound to fail even in the short run, with the result that the country is today faced with a crisis of deteriorating living conditions for the rural populace.

The point of departure of this chapter is that the time for a paradigm shift in the country's approach to rural or grassroots development has come. We must appreciate that rural development must essentially be people-centered or participatory. Certainly, the government can facilitate, energize, and create a conducive policy environment, but only the people can bring about meaningful development, hence the importance of community development as a strategy for rural development. The crucial and fundamental argument, therefore, is that rural development is essentially people-oriented. Accordingly, at the core of the push for a paradigm shift in Nigeria's approach to grassroots development must be the mass mobilization of the prevalent human resource base. The local governments, whose statutory functions include mobilization of both human and material resources for development at the grassroots level, must therefore be encouraged and empowered to function effectively as centers of development. The local governments are strategically positioned for effective mobilization of the local people for their own development through their active participation in the planning and execution of rural development programs.

If duly empowered, the local governments possess immense capacity to mobilize the local people for effective participation in the grassroots development process. Mobilization, as used here, implies a process whereby people are made aware of the resources at their disposal and motivated and energized to collectively utilize such resources for the improvement of their material conditions of living. Thus, as centers of development, local governments should aim at creating a wholly new political culture that will transcend the multitude of negative factors that have hitherto

characterized rural areas. The chapter strongly recommends a substantial devolution of power from the federal government to state and local governments. One of the problems in Nigeria has been the overconcentration of power in the center and the states, while the local governments are neglected in the scheme of things. Local governments, being at the grassroots and the closest of all tiers of government to the vast majority of the people, should be saddled with functions that have a direct bearing on the material conditions of life of the people at the grassroots level. Local governments should be made centers of development by granting them autonomy and injecting more funds into their operations.

With this arrangement, coupled with good salaries, more qualified and experienced people will be attracted to seek employment in the local governments, thereby ending the perennial problem of executive paucity. This would, in turn, enhance the propensity of the local governments to deliver on their mandates. Furthermore, the local governments should put in place the necessary framework for enhanced internally generated revenue, which is needed for improved implementation of development programs targeted at uplifting the standard and living conditions of the generality of the grassroots population in Nigeria.

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## Chapter 13

# The Imperative of Adequate Financing of Education for Sustainable National Development

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### Abstract

Education is not only key to personal and human development; it is an imperative for sustainable national development. Through quality education, the cultural values of a nation are transmitted across generations, through it, knowledge is created and domesticated. However, it remains a truism that education cannot contribute optimally to national development if it does not receive adequate funding. Adequate funding is needed to provide infrastructure and improve the capacity of teachers. While sustainable development can be promoted through policy instruments, these tend to be effective for only as long as they are applied. Education can enhance the effectiveness of these instruments through developing informed engagements, agency and empowerment among all affected stakeholders. In Nigeria though, as this study discovered education has not received the necessary funding. The study revealed a yawning gap between needed resource and available resources, this is because Nigeria's budgetary allocation to education for the past three decades has not gone anywhere near the 20 percent recommended by UNESCO. It is also discovered that allocated funds were not fully released and judiciously utilized by relevant authorities. With public investment in education declining over the years and the near non-existence of private sector participation in public education, quality of education has suffered. This in turn has impacted on education's capacity to

*contribute to a more peaceful and prosperous Nigeria. The paper recommended among other things commitment to the 26 percent UNESCO target, timely release and judicious and prudent management of released funds. It also recommended a regime of more effective collaboration and partnership between the government and private sector.*

**Keywords:** *Adequate Financing, Education, Sustainable National Development*

### **Introduction**

Education is key to meaningful socio-economic and political development of any nation. That is why the federal government adopted education as an instrument “par excellence” for effecting national development (FRN, 2004). As a result of the premium placed on education, the federal government organized a National Curriculum Conference in education in 1969 which was a forum for the discussion of a wide range of issues and problems underlying the determination of an appropriate curriculum for the nation's schools (Adaralegbe, 1972). The conference led to the National Policy on Education first published in 1977 but has been revised several times since then. The report of the conference provided guidelines in three broad areas namely needs of young people and adults, socio-economic needs and aspirations of the country and curricular content. Nigeria has witnessed lots of innovation and reforms in the educational system since the implementation of the National Policy on Education began in 1981. These reforms and innovations include both not limited to Universal Basic Education (UBE), Special Needs Education (SNE), Early Childhood and Care Education (ECCE), National Policy on HIV/AIDS for the education sector, National Nomadic Education Programme, post UTME screening, Mass literacy, adult and non-formal education programme, Population and Family Life Education and so on. Unfortunately, despite these reforms and innovations and huge investments by successive governments, education has not sufficiently lifted the country from the morass of technological and scientific underdevelopment, economic stagnation, political instability and social and moral decadence.

Nigeria remains the poverty capital of the world, an infamous title it has held since 2018. According to the 2022 review of Nigeria's poverty map, the National Bureau of Statistics (NBS), the government agency that coordinates manages all official statistics of the Nigerian governments, 62.9 per cent of Nigerians, nearly 133 million people are living in multidimensional poverty. The figure represents a significant jump from the World Bank's projection earlier which placed 95 million Nigerians under the poverty line. Nigeria has the highest number of out-of-school children in the world. According

to UNICEF, 10.5 million children are believed to be out of school, a figure that represents approximately 20% of the total statistic. This is caused by low GDP growth averaging 1.1. per cent between 2015 and 2021 which caused two economic recessions and an all-time unemployment rate of 56.1 per cent in 2020. Likewise, economic growth has not been inclusive and Nigeria economy faces key challenges of lower productivity, capital flight and low foreign direct investment (FDI) and the weak expansion of sectors with high employment elasticity. (Brookings, 2023). On the socio-political front, Nigeria continues to face the challenges of corruption, political instability occasioned largely by government's rascality and irresponsibility, ethno-religious crises, insecurity and so on. It can be argued that most of these reforms and innovations which are supposed to make education a real instrument for social change and national development are poorly implemented due to inadequate and unsustainable funding. Adedaja (2008), posited that inadequate funding of education ranks high among the many problems bedeviling Nigeria since independence. This is manifested in the decline in the proportion of government expenditure allocated to the education sector relative to other sectors. This is in spite of the increasing demand for education in the country.

According to the United Nations (UN), Nigeria's average allocation to education between 2015 and 2022 is 5.39 per cent. This is a far cry from the 26 per cent annual allocation recommended by United Nations Educational Scientific and Cultural Organization (UNESCO). This has caused unimaginable damage to the education sector which manifests mainly in unpaid salaries, pensions and gratuities to both serving and retired teachers, brain drain leading to the shortage of well-trained manpower in the system, irregular academic sessions due to incessant strikes, dilapidated classrooms, lecture halls, laboratories, libraries and so on. This has meant that education is not able to help Nigerians develop the attitudes, values, skills and knowledge needed to make informed decisions for the benefits of themselves and others, now and for the future and to act upon those decisions. In this light, therefore, there is need to fund education adequately for it to contribute optimally to sustainable development in Nigeria.

### **Sustainable Development**

In recent times, there has been a paradigm shift in way development is viewed, defined and practiced. The paradigm shift resulted in the adoption of Sustainable Development (SD). The shift was borne according to Hopwood et al (2005) as quoted by Ahenkan and Osei-Kojo (2014) out of the global link between environmental problems and socio-economic concerns and also because previous conceptions and approaches to development focused largely on economic and physical wealth despite the multi-dimensional and complex nature of development (Bellu, 2011). The notion of sustainable development' was introduced into the world political agenda by the

World Commission on Environment and Development otherwise known as the Brundtland Commission in its 1987 report. Because the report did not give a precise definition of the notion, there have been many definitions. However, the most frequently used definition is that which says that "Sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The Brundtland Commission thus sees sustainability as a requirement for both intragenerational and intergenerational justice.

According to Ogu, Ezeonwuka and Sule (2016), it contains within it two key concepts:

1. The concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and
2. The idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs (IISD, 2015).

Its core focus is an approach to development that seeks to balance the economic, environment and social dimensions of development in a long term and global perspective. It looks to balance different, and often competing needs against an awareness of the environmental, social and economic limitations we face as a society. It implies a broad view of human welfare, a long-term perspective about the consequences of today's activities and the full environment of civil society to reach viable solutions. It is a requirement of our generation to manage the resource base such that the average quality of life that we ensure ourselves can potentially be shared by future generations (World Bank, 1994). The notion 'quality of life' is meant to include everything that influences the situation in which people live. It is intended to capture the importance of health, culture and nature. Hence, the notion includes much more than material consumption. Extending the requirement of sustainability to future generations, development becomes sustainable if it involves a non-decreasing average quality of life. Sustainable development is also about ensuring a strong, healthy and just society. This means meeting the diverse needs of all people in existing and future communities, promoting the personal wellbeing, social cohesion and inclusion and creating equal opportunity. It recognizes that growth must be inclusive and environmentally sound to reduce poverty and build shared prosperity for today's population and to continue to meet the needs of future generations. It is efficient with resources and carefully planned to deliver both immediate and long-term benefits for people, planet and prosperity. The essence of sustainable development is to prevent injustice.

### **Funding of Education in Nigeria: An Overview**

The 1999 Constitution of the Federal Republic of Nigeria places education on the

concurrent legislative list which grants both the federal and state governments the rights and powers to own and manage educational institutions. With the powers to own and manage comes the responsibility to fund institutions and the government and even private individuals including religious organizations now own and operate educational institutions even up to the higher education level. Education funding in Nigeria comes from different sources. The major sources are appropriation and releases as capital and recurrent expenditure for the education sector by the federal and state governments. Others are, tuition paid by end users of education (students), education taxes collected and distributed by Tertiary Education Trust Fund (TETFund), local corporate bodies, international donor agencies like the World Bank, IMF, Commonwealth, Ford and Melinda and Bill Foundations and so on. According to Adewale et al (2006), private sources account for about 20 per cent of total donors particularly in the form of loans. Ubogu and Money (2018) said that the underlying rationale for public funding of education is to equip people with the requisite knowledge, skills and capacity to enhance the quality of life and increase productivity and capacity to gain knowledge of new techniques for production so as to be able to participate evocatively in the development process.

While the demand for education has increased exponentially in the last couple of decades, funding, however, has not matched the rate of enrolment and that has posed a big problem for the quality of education on offer. Hinchliff (2002) pointed out that federal budgetary allocation to education in nominal terms rose from N6.2 million in 1970 to N1,051.2 million in 1976. Thereafter, it declined to N667.1 million in 1979, rose again to N1,235 million in 1980, declined in succeeding years before rising to N3,399.3 million in 1989. It dropped further to N1,553.3 million in 1991 before rising gradually to N9,434.7 million in 1994. Thereafter, the declining trend continued. Precisely, the Federal Government spending on education is below 10 percent of its overall budget. Overall, the shares have varied between 7.6 and 9.9 per cent and the trend has been largely downward. Worse still is that about 70 and 80 per cent of the total allocation are for recurrent activities instead of capital projects (Ubong and Money, 2018). In 2002, the capital allocation increased to 45 per cent of the total allocation, in line with the overall large increase in capital expenditure in federal government budget (Amaghionyeodiwe and Osinubi, 2006).

**Table 1: Post 2000 Trend in Nigeria's Funding Effort to Meet the 26% UNESCO Requirement by the Federal Government of Nigeria**

Year	Total budget (in trillion naira)	Allocation to education (in billion naira) (% of total allocation)	Allocation to capital projects.
2000	470 billion	40 (8.7)	27.91
2002	1,064	73 (6.9)	30.09
2004	1,790	93 (5.24)	22.98
2006	1.876	195 (10.4)	18.26
2008	2,492	250 (10.04)	19.09
2010	4.608	339 (7.37)	28.68
2012	4.749	468 (9.86)	11.75
2014	4.962	493 (10.63)	24.32
2016	6.08	480.28 (7.9)	7.5
2018	9.12	651.23 (7.1.)	15.7
2020	10.27	671.07 (6.7)	
2020	17.126	742.5 (5.6)	

**Source:** Micaiah (2014), authors' compilation

The budgetary allocation falls significantly short of the UNESCO's recommendation. According to Bagudo (2014), the situation is made worse by the fact that the budgetary performance every year is usually lower than the actual budget. What is released at the end of the budget year is often lower than the budgetary provision. Ogu, Jadan and Ishaku (2019) asserted that the problem of underfunding has been made worse by the dwindling revenue accruing to the country due to the fall in the production and price of oil in the international market and the management of available resources by public officials. According to an Oxfam report in 2017, Nigeria was ranked 41st out of 41 countries in Africa for spending on healthcare, education and social security compared to South Africa that was ranked 2nd with a score of 0.512. according to PricewaterhouseCoopers (PWC), while Nigeria's education budget as a % of total annual budget in 2017 was a paltry 7%, Kenya, Ghana and South Africa did 16%, 19% and 21% respectively. This has serious implications for economic and human development in the absence of adequate funding.

**Table 2: Trend in Real Budget Allocation in Nigeria**

Year	Nominal allocation to education	Deflator (2000) = base year	Real allocation to budget
2000	40,490,663,330	1.00	40,490,663,330
2002	73,435,499,300	1.15	63,856,955,913.04
2004	93,767,886,839	1.55	60,495,410,863.87
2006	195,693,672,666	2.22	88,150,303,002.70
2008	250,144,818,576	2.56	97,712,819,757.42
2010	339,634,791,000	2.68	126,729,399,626.87
2012	468,385,490,528	3.44	136,158,572,827.91
2013	509,039,713,761	3.61	141,008,230,958.73
2014	493,458,130,268	3.71	133,007,582,282.48

**Source:** Micaiah 2014

The tables above shows that Nigeria is far from meeting the UNESCO requirement as it has only managed to allocate about 10 per cent of her total budget to education in the last two decades. At the present growth rate and considering the effect of inflation of the value of the Naira, Nigeria is likely to delay her catch up time with the rest of the world that are allocating 20 per cent of their total budgets to education (Babalola, 2014). According to Micaiah (2014), Nigeria needs to grow her budget by 2 per cent per annum to be able to allocate 20 per cent of her total budget to education by the year 2018 and 30 per cent by year 2020. Table 1 shows a worrying trend with allocation to the education sector. The proportion of capital allocation that ought to be 30 per cent for optimum development of education has decreased from 30.09 per cent in 2002 to 11.75 in 2012 and continues to decline. From the above indicators, Nigeria is yet to ensure the required sufficiency in the funding of education. The poor funding of education in Nigeria has left a very frightening gap which must be bridged if education is to contribute to sustainable development. According to Babalola (2014), the funding gap which was 22.3 per cent, 63.1 per cent and 97.1 per cent in 2009/2010, 2012/2013 and 2015/2016 academic sessions respectively is projected to increase to 110.1 per cent and 113.2 per cent in 2018/19 and 2019/20 academic sessions respectively. This is quite alarming and holds disastrous consequences for Nigeria education in particular and the nation's economy in general.

#### **Sources of Education Funding in Nigeria**

Funding for education in Nigeria comes from some of the under listed sources. It has to be pointed out that no source taken alone is sufficient to fund education adequately, that is why multiple sources are needed to ensure that education gets the funding it needs to contribute optimally to sustainable development in the country.

1. Tuition fees: In Nigeria, tuition fees are better known as school fees. These are fees charged by educational institutions for the services they provide to students who are end users of education. Olubadewo (2002) posited that students/pupils may be required to pay for the teaching they are to receive at school. Apart from tuition fees, may also be asked to pay sundry things like examination, laboratory, students identity card charges, computer, medical, uniform, development and so on. Even in systems that operate the "compulsory free education", authorities see these sundry fees as ways to generate money to run their various institutions amidst low "running cost" from the government.
2. Government Subventions (Grants): Educational institutions that are owned by the government depend largely on the government for funding. Because is seen as a social service, the government sees it as its responsibility to provide quality and functional education to the citizens and for that reason, the government allocates a sizeable portion of its annual budget to the education sector. The allocation is meant to provide basic infrastructure, pay workers



(teachers and support staff) salaries and so on.

3. Education tax: This is a tax imposed on every company operating in Nigeria and is meant to augment government's funding of education through the annual budget. The tax originated in the Education Tax Act no 7 of 1993 which imposed a 2 per cent tax on the assessable profits of all companies in Nigeria. In 2011, however, the federal government established the Tertiary Education Trust Fund to stop the rot and deterioration in the educational infrastructure occasioned by long years of neglect and very poor resource allocation. The Fund disburses, manages and monitors education tax to government owned tertiary institutions in Nigeria. The tax was reviewed upward to 2.5 percent of the profits of companies in Nigeria. The Fund intervenes in critical areas of need in tertiary education such as provision of infrastructures like lecture halls, laboratories, libraries and capacity development of lecturers through award of scholarship for higher degrees, workshop and conferences.
4. Donations and endowment funds: An endowment is a structure used by educational institutions to raise donation capital. The purpose of an endowment is to enable institution raise money to finance their operations. These donations are made by communities, organizations and public-spirited individuals who are eager to contribute to the upliftment of education in the country. In recent times and perhaps due to the downturn in the nation's economy, donations to educational institutions have not been substantial as it used to be in the past with support from UNESCO, The Ford foundation, Carnegie Foundation among others. According to Iweama (2011), contributions from the aforementioned agencies declined in the 70s when Nigeria's new found oil wealth gave the impression that such aids were no longer necessary.
5. Loans: Educational institutions, like other organizations can raise funds from banks and other financial institutions to execute capital projects and programmes. However, the only problem here is that most educational programmes are neither profit making nor revenue generating (Iweama, 2011). That makes it difficult for lending agencies to provide loans to educational institutions. The loans can, however, be granted commercial banks when there is a guarantee from government or some reputable organizations that such loans will be repaid by them in case of default.
6. Profit yielding investments: Educational institutions can boast their internal finances through profit yielding projects such as the establishment of printing press, bookshops, farms, consultancy services, hotels and guest houses, catering services and so on. Many tertiary educational institutions have actually invested in these projects and are making profits from them though the profits are a drop in the ocean amidst the burgeoning needs of these institutions.

7. Education for sustainable development: The relationship between education and development have been of concern to scholars since the beginning of civilization. Plato asserted that the main function of education is not just to put knowledge into the soul but also to bring out the latent talents in the soul by directing it towards the right objects. Education for him, is a means to achieve justice both individually and socially. Individual justice can be obtained when each individual develops his ability to the fullest. It is a means to excellence. Similarly, Aristotle thought the purpose of education was to develop dispositions and habits that exercise reason and forming a human ethos. Thus, it is not in doubt that education is the surest way to sustainably develop a person or society. It is the process of imparting and acquiring knowledge, skills, attitudes, values and dispositions needed for both personal and national development. The skills and knowledge acquired are then applied to sustain present and future generations. Recognizing the importance of education for sustainable development, the international community under the auspices of the UN General Assembly adopted resolution 57/254 establishing United Nations Decade of Education for Sustainable Development to run from 2005 to 2015, with UNESCO as the lead agency for the decade.

Ilechukwu et al (2014) reported that the overall goal of the Decade for Sustainable Development is the integration of the principles, values and practices of sustainable development into all aspects of education and learning. The Decade's four key objectives according to them are:

1. Facilitating, networking and collaborating among the stakeholders in education for Sustainable Development (ESD).
2. Fostering greater quality of teaching and learning in ESD.
3. Supporting countries to achieve their Sustainable Development Goals (SDGs) through education.
4. Provide countries with new opportunities and tools to incorporate ESD into education reforms efforts,

Education for Sustainable Development (ESD) is therefore an approach to teaching and learning that is based on the ideals and principles that underlie sustainability. It aims to help people develop the attitudes, values, skills and knowledge to make informed decisions for the benefits of themselves and others, now and for the future, and to act upon those decisions.

Therefore, the role of education in sustainable development can be summarized as follows:

1. Education is here regarded as an instrument of social change which could

transform the society in significant ways. Education is important when trying to enable a change in values and attitudes towards sustainability. The report of UN's World Commission on Environment and Development (WCED) (1987) recognized that "sustainable development requires changes in values and attitudes towards environment and development" and that education plays a central role in achieving those changes in values and attitudes (Sims & Falkenberg, 2013). Education for Sustainable Development (ESD) is one of the most important tools for raising awareness about the environmental issues within a sustainable development context

2. Education for sustainable development involves learning how to make decisions that considers the long-term future of the economy, ecology and equity of all communities. UNESCO argues that education has a special responsibility to generate the knowledge needed as well as to communicate this knowledge to decision makers and the public at large. (UNESCO, 2001, 2003). As a result, the body calls on all relevant stakeholders to review the programmes and curricula of schools and universities, in order to better address the challenges and opportunities of sustainable development. Therefore, contemporary sustainable development education is expected to orient on future development, ensuring proper quality of present and future life.
3. Education for Sustainable Development functions to educate, train and undertake researches to contribute to the sustainable development of the society. For example, the training of people in monitoring of targets and detection of sustainable concerns and graduates with skills, knowledge and attitudes to make sustainable contributions to the society. (Bedawy, 2014).
4. In addition, education should provide learners with skills, perspectives, values and knowledge to live sustainably in their communities. Education also produces leaders of the country who manage the affairs of government and private sector industries who constitute the stake holders of sustainable development. By so doing, the educational system creates a "vanguard group" of leaders in each sector of society who will take primary and leading roles in promoting the values for sustainable development (Bedawy, 2014).

### **Strategies to Boost Funding**

Against a backdrop of growing demand for education and the need to achieve sustainable development in Nigeria, there is need then for the diversification of the revenue sources of educational institutions to complement the traditional government supply. Such strategies include but not limited to the following:

1. Contribution from end users of education. The need for adequate funding of education in the face of falling public resource allocation means that institutions have to recourse to the users of education (students) to contribute

towards the funding of their institutions. This could be in the form of tuition fees, development levy, caution fee (against the possibility of damage to school property), admission, registration and examination fees. It has to be stressed that investment in education is capital intensive and the government cannot carry the burden alone. In the light of this, the fraudulent 'free education programme' being operated by some state governments should be scrapped. It is counter-productive as it offers poor quality for free. At the same time, such fees charged must be affordable by the students. To maximize the gains of the payment of these fees and levies, there should be regular audit of the revenue generating process to ensure that all monies collected are properly accounted for by the revenue collecting units and any embezzlement discovered be seriously punished according to laid down laws.

2. Educational institutions particularly the higher institutions should complement government's funding of education through the establishment of revenue generating units such as bookshops, printing press, consultancy service, table water packaging and other investments. These are viable means of raising funds needed by educational institutions for effective service delivery.
3. The enactment of Education Tax Law. This will make companies and individuals to contribute to endowment funds set up by educational institutions but managed by licensed pension fund administrators. An endowment is an aggregation of assets invested by an organization to support an objective or cause in perpetuity. They facilitate the transfer of private wealth to public institutions and provide stability because the recipients know the funds exist. World Bank (1994) agreed that funds could be raised through mobilization of philanthropic donations and endowments from alumni, private individuals and firms.

In the US, endowments which comprised of money or other financial assets that are donated to academic institutions is one major source of funding for universities and it vary widely. While some hover in the millions, others, such as Harvard reach well into the billions. As at the end of 2021 fiscal year, Harvard netted about \$53 billion, Yale got \$42 billion. These are far higher than even Nigeria's external reserves of \$36.7 billion as of February 2023. Harvard's endowment fund is managed by Harvard Management Company, a subsidiary of the University which serves as the school's investment manager. This fund is larger than the GDP of half the world's economies and contributions into it has enabled the University to provide industry-leading financial aid programs, ground breaking scientific research and professorship in many fields. Most higher education institutions in Nigeria have significantly profound alumni members who make donations to their alma mater via registered or non-registered alumni associations. These donations can be structured into an endowment fund for

better and sustainable outcomes. In return for their donations, the alumni members earn income in the form of return on investment on an annual basis or as predetermined in the endowment charter. Furthermore, funds under management in an endowment fund can be loaned to government for infrastructure projects in naira. This is because most endowments funds to have low risk appetites, particularly in the short term. Therefore, many will opt for government bonds and treasury bills and become a significant holder of Nigeria's debt like the Pension Funds.

### **Conclusion**

Educational institutions particularly those of higher learning are to all intent and purposes designed to guide and nurture a society's pathway into the future, they are the proven ground for a country's best ideas, the birthplaces of innovation and groundbreaking research. But research and inquiry may lead to revolutionary discovery or lead nowhere at all. Either way, the process is expensive and can only depend on large sums of money/fund. The problem always is how do we fund education in order for it to contribute optimally to sustainable development in Nigeria. The question has even greater resonance in Nigeria where public allocation to education is low and has continue to dwindle as a result of dwindling government revenue and the poverty levels put access to quality education beyond the reach of many.

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