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**FINANCIAL MARKETS
EFFICIENCY AND ECONOMIC
DEVELOPMENT
IN NIGERIA**

By

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ABSTRACT

The study empirically investigated the causal and systematic relationships between financial market efficiency and economic development in Nigeria from 1981 to 2014. Augmented Dickey – Fuller (ADF) and Johansen cointegration tests, Granger causality test and the Vector Error Correction Model (VECM) were used in data analysis and test of hypothesis. It was found among others, the existence of long run equilibrium relationships between financial market efficiency variables and per capita GDP, a unidirectional causation between PGDP and key financial markets efficiency variables like SAVR, ROI and SPR and absence of causation between PGDP and CML in Nigeria. Based on these findings, we proffer a battery of policy recommendations, which inter alia include strengthening the institutional and regulatory framework of the Nigerian financial markets.

JEL Classification: C32, E44, O16.

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Introduction

The financial market is a collectivity or constellation of individuals, institutions, instruments and mechanisms that help to channel funds from surplus economic units to deficit economic units within a country and beyond. In other words, the markets serve as the link between savers (lenders) and investors (borrowers) such that the operators and service providers are also referred to as financial intermediaries. The market for short term funds is traditionally referred to as the money market (and is also referred to as the banking system), while the segment for medium to long term fund is christened – capital market. Financial market efficiency means those economic units (households, firms and governments) especially firms with profitable investment

opportunities have access to funds at costs or rate much less than investors' expected rate of return. Intuitively, this is a reasonable goal of policy makers the world over. However, for the market to be efficient in terms of allocation of resources as explained above, it must be:

- (i) informationally and
- (ii) operationally efficient (Sharpe, Alexander and Bailey 2008).

Both forms of efficiency describe the level of development of financial markets. Information efficiency implies that the prices of financial instruments adjust rapidly to new and often stochastic information such that market prices are seldom different from intrinsic prices. This is in consonance with Fama's (1970, 1991) fair game theory which is also called the Efficient Market Hypothesis (EMH). Operational efficiency means that participants in the financial markets trade with one another in such a way that the cost of transaction is low, and the speed of transaction is high. This form of efficiency is the focus of this study.

The extant financial economic literature is replete with ample empirical evidence on the relationship between financial market efficiency (i.e. development of financial intermediation) and economic growth/development. However, to the consternation of researchers, there is no consensus on the nature of this relationship (Grossman and miller, 1988 and Levine, 1997). More so, extant literature in developing countries tend to focus mainly on the capital market, while ignoring the money market efficiency and its impact on economic growth/development. This study is an attempt to bridge this gap by focusing on both relationships. The study provides empirical evidence on the systematic relationship between financial markets efficiency and economic development in Nigeria. In doing so, we delimit the scope to operational

efficiency of the money market, capital market and their impact on economic development in Nigeria. In other to proceed, we address our minds to the following research questions;

- i what is the direction of causation between financial markets efficiency and economic development in Nigeria?
- ii What is the impact of Savings Rate (SAVR) on economic development in Nigeria?
- iii What is the impact of Interest Rate Spread (SPR) on economic development in Nigeria?
- iv What is the impact of Returns on Investment in the capital market (ROI) on economic development in Nigeria?
- V What is the impact of Capital Market Liquidity (CML) on economic development in Nigeria?

Therefore, the objective of this study is to empirically provide valid and accurate answers to these questions, through the scientific method of investigation. The temporal scope of the study is delimited to the period between 1981 and 2014 inclusive, to take cognizance of the financial markets liberalization introduced in Nigeria in the mid-1980s. The rest of the study is organized as follow:

Section two discusses an array of related literature and theoretical underpinnings.

In section three, we present the methodology of the study.

Section four is presentation of results and discussion.

The last section is conclusion and policy recommendations.

2. Review of Related Literature and Theoretical Underpinning

Becks and Levine (2004) in their study of stock markets, banks, and growth observed that theory provides conflicting predictions about

- (i) the impact of aggregate financial market development (deepening) on growth and
- (ii) the separate effects of stock market and money market on economic growth. Historically, Bagehot (1873), Schumpeter (1912) and Hicks (1969) argue that financial market development initiates or ignites the process of economic growth (sustained increase in output overtime) and economic development (growth plus changes in the technical and institutional arrangement instrumental to growth and its distribution (Kindleberger, 1965). This is largely due to the fact that efficiency in intermediation reduces the incidence of information asymmetry which usually manifest in the form of
 - (i) adverse selection,
 - (ii) moral hazard and
 - (iii) monitoring costs. Several models/theories emphasize that well-functioning financial intermediaries and markets significantly eliminate information asymmetry and transaction cost. This helps to enhance the efficient allocation of fund, which is instrumental to long-run economic growth and development (Bencivenga and Smith 1991; Bencivenga, Smith & Starr, 1995; and King & Levine 1993a). We note that the existence of a vibrant secondary market for securities/assets bolsters investors'

confidence, aids price discovery in the secondary market and also influences the pricing of new issues of securities (in the primary market).

Theoretically, low level of information asymmetry should lead to low cost of transaction, which *inter alia* engenders investors' confidence and hence boosts the level of capital formation; a sine qua none for investment, growth and development, within the neo classical philosophical framework. Proponents of this positive relationship between financial market development and economic growth are stratified along two lines (structuralists versus repressionists) based on the channel of transmission (Gupta, 1984). The Structuralists believe that market sophistication, in terms of breadth and depth; *inter alia* enhance savings, investment and growth. On the other hand, Shaw (1973) and McKinnon (1973) demonstrated that financial repression, i.e. by keeping interest rate below market determined rate can provide disincentive for savings. Conversely, if rates are high enough, it will elicit savings. In light of the above, Stiglitz (2000) asserted that the case for capital market liberalization is essentially hinged on standard efficiency arguments, within the neo classical growth model.

The second school of thought holds that it is business opportunities, and hence economic growth that sets the pace for finance to follow (Robinson, 1952). Proponents of this view believe that economic development creates demand for a given form of financing, and the financial market responds automatically. This probably explains the observed inflow of foreign capital to emerging markets economy in recent times. In Nigeria for instance, the operational efficiency of the capital market has been enhanced significantly in recent years (Osaze, 2007). This is due to a number of factors which include

- (i) automation of the market
- (ii) reduction of the settlement cycle from several weeks to transaction day plus three working days ($t + 3$),
- (iii) introduction of the trade alert system which enables investors to monitor and terminate transactions before they are fully consummated when the need arises, etc.

However, as observed by Becks and Levine (2004), other models in extant literature also reveal that efficient financial market development can be detrimental to growth. Specifically, financial development by enhancing the allocation of funds and hence returns to savings may lower the savings rates in the economy.

In other words, financial development could turn out to be counterproductive. If there are significantly large externalities associated with savings and investment, the financial market efficiency could reduce the pace of long-run economic growth. Arguing along this line of thoughts, Chipamire and Ngirande (2014) asserted that more liquid financial markets can compromise growth by encouraging counterproductive corporate takeovers. For example, an investor with a relatively small proportion of a certain business concern with the knowledge that he/she can dispose the investment quickly at low cost is likely to be less committed in monitoring the business effectively, compared to one who holds a large portion which is not easily and cheaply disposed or converted to cash. As a consequence, this can cause corporate problems which might adversely affect the economy. As Levine (2003) observed, liquid financial markets may shift the commitment of investors from corporate control to more flexible transactions in stocks in the secondary market largely for profit taking, given that it is easy to do so. Thus, liquid

securities market result to diffusion of ownership of businesses. Yartey and Adjasi (2007) argued further that corporate governance could be adversely affected by liquidity of stock market because high level of market liquidity may contribute to investors' myopia.

According to Barth, Caprio and Levine (2004), if income effects supersede substitution effect in an economy, any increase in returns to savings in a very liquid financial market will result to a lower savings rate. Should savings drop significantly; this will increase the difficulty at which surplus funds can be mobilized to fund projects/investments. Levine (2003) also argues that a liquid capital market can have an adverse impact on allocation of resources and economic growth and development if it leads to significant reduction in corporate control.

Furthermore, the extant literature also provides ambiguous predictions about the relative importance of banks and stock markets in driving economic growth, and on the extent to which they are substitutes or complement. For example, Boyd and Prescott (1986) examine the critical role that banks play in reducing information asymmetry and therefore in enhancing resource allocation while Stiglitz (1985) and Bhide (1993) emphasize that capital markets will not yield the same improvement in funds allocation and corporate governance like the banking sector.

Nevertheless, some studies stress that stock markets mitigate the inefficient monopolistic power exercised by banks and stress that the competitive nature of stock market encourages innovation and growth unlike the banking system that is very conservative (Allen & Gale, 2000). In this study, we take cognizance of the roles of both the banking system and the capital market in the financial system by specifying a system equation framework. This will enable us determine the relative importance of the efficiency of

money and capital markets in Nigeria, with respect to economic development, *inter alia*.

3. Methodology

The estimation procedure is hinged largely on advancements in the theory of cointegration, which enable researchers to circumvent the problem of spurious regression associated with non-stationary time series data(Engle & Granger, 1987). First, we employ the Augmented Dickey -Fuller (ADF) test for stationarity. After this, we perform the Johansen cointegration test. Next, we perform the Granger – causality procedure to ascertain the direction of causation between the variables of interest, before implementing the Vector Error Correction Model (VECM).

For the Augmented Dickey – Fuller (ADF) procedure, we obtain the t – ratios of the coefficient of Y_{t-1} in the following regression equation to aid our decision;

$$\Delta Y_t = \acute{e}_1 + \acute{e}_2 t + \Psi Y_{t-1} + \sum_{i=1}^n \alpha_i \Delta Y_{t-i} + \varepsilon_t \dots \dots \dots (1)$$

Where Y_t represent the discrete time series variables employed in this study and ε_t is the pure white noise stochastic term.

3.1 Testing for Causality

Granger (1969) asserted that if a causal relationship exists between pairs of variables, then these variables can be employed to predict each other, using the following equations;

$$Y_{it} = \beta_0 + \sum_{k=1}^m \beta_k Y_{it-k} \sum_{l=1}^n \alpha_j X_{it-j} u_t \dots \dots \dots (2)$$

$$\Delta Z_t = \alpha_{i_0} + \sum_{i=j}^k A_i \Delta Z_{t-1} \sum \delta ECT(-1) \varepsilon_{it} \dots \dots \dots (5)$$

Where Z_t is the vector of endogenous variables, α_{i_0} is the coefficient of autonomous variables, A_i is the coefficient of the exogenous variables, δ is the coefficient of the Error Correction Term (ECT) and ε_{it} is the vector of innovations. The above model in equation 5 can be re-specified in its explicit form as;

$$\begin{aligned} \Delta PGDP_t \alpha_{1,0} & \sum_{i=1}^k A_{1,1} \Delta PGDP_{t-i} \sum_{i=1}^k A_{1,2} \Delta SAVR_{t-i} \sum_{i=1}^k A_{1,4} \Delta SPR_{t-i} \sum_{i=1}^k A_{1,5} \Delta CML_{t-i} \\ & + \sum \delta_1 ECT(-1) + \varepsilon_{1,1} \dots \dots \dots (5.1) \end{aligned}$$

$$\begin{aligned} \Delta SAVR_t & = \alpha_{2,0} \\ & + \sum_{i=1}^k A_{2,1} \Delta PGDP_{t-i} + \sum_{i=1}^k A_{2,2} \Delta SAVR_{t-i} \\ & + \sum_{i=1}^k A_{2,3} \Delta ROI_{t-i} + \sum_{i=1}^k A_{2,4} \Delta SPR_{t-i} \\ & + \sum_{i=1}^k A_{2,5} \Delta CML_{t-i} + \sum \delta_2 ECT(-1) \\ & + \varepsilon_{2,1} \dots \dots \dots (5.2) \end{aligned}$$

$$\begin{aligned}
 \Delta ROI_t = & \alpha_{3,0} + \sum_{i=1}^k A_{3,1} \Delta PGDP_{t-i} + \sum_{i=1}^k A_{3,2} \Delta SAVR_{t-i} \\
 & + \sum_{i=1}^k A_{3,3} \Delta ROI_{t-i} + \sum_{i=1}^k A_{3,4} \Delta SPR_{t-i} \\
 & + \sum_{i=1}^k A_{3,5} \Delta CML_{t-i} + \sum \delta_3 ECT(-1) \\
 & + \varepsilon_{3,1} \dots \dots \dots (5.3)
 \end{aligned}$$

$$\begin{aligned}
 \Delta SPR_t = & \alpha_{4,0} + \sum_{i=1}^k A_{4,1} \Delta PGDP_{t-i} + \sum_{i=1}^k A_{4,2} \Delta SAVR_{t-i} \\
 & + \sum_{i=1}^k A_{4,3} \Delta ROI_{t-i} + \sum_{i=1}^k A_{4,4} \Delta SPR_{t-i} \\
 & + \sum_{i=1}^k A_{4,5} \Delta CML_{t-i} + \sum \delta_4 ECT(-1) \\
 & + \varepsilon_{4,1} \dots \dots \dots (5.4)
 \end{aligned}$$

$$\begin{aligned}
 \Delta CML_t = & \alpha_{5,0} \\
 & + \sum_{i=1}^k A_{5,1} \Delta PGDP_{t-i} + \sum_{i=1}^k A_{5,2} \Delta SAVR_{t-i} \\
 & + \sum_{i=1}^k A_{5,3} \Delta ROI_{t-i} + \sum_{i=1}^k A_{5,4} \Delta SPR_{t-i} \\
 & + \sum_{i=1}^k A_{5,5} \Delta CML_{t-i} + \sum \delta_5 ECT(-1) \\
 & + \varepsilon_{5,1} \dots \dots \dots (5.5)
 \end{aligned}$$

Where PGDP is per capita GDP, our measure of economic development, it is obtained as GDP divided by total population. SAVR is savings and is taken as the ratio of savings to GDP. ROI is return on investment in the capital market. It shows the efficiency in the stock market of how investments are being managed and converted to increase in income for the investors. SPR is interest rate spread, a key measure of money market efficiency. It is measured as the difference between prime lending rate and deposit rate in the banking sector. CML is capital market liquidity. This is the ratio of value traded to market capitalization, and it takes cognizance of capital market efficiency. Equations 5.1 to 5.5 reveal that the current value of each variable depends on its lags and the lagged values of other variables in the system. Time series secondary data for this study were sourced from the Central Bank of Nigeria (CBN) annual statistical bulletin for 2015 and the reports of the Nigerian Securities and Exchange Commission (NSEC), various issues.

4. Data Analysis, Results and Discussion of Findings

Unit Root and Cointegration Analysis

The results of the ADF test for stationarity are presented in levels and first difference. This enables us determine in comparative terms, the unit root among the time series and also to obtain more robust results. Table 1 presents results of Augmented Dickey-Fuller (ADF) test in levels and first differences without taking into consideration the trend in variables. The reason for this is that an explicit test of the trending pattern of the time series has not been carried out. The results indicate that each of the variables (apart from SPR) possesses both ADF values that are less than the 95 percent critical values for the levels series and greater than the critical value for the differenced series. That is, most of the variables were integrated of order one [I (1)]. It is therefore

appropriate to use cointegration analysis to estimate the relationships between the variables, provided that the method chosen allows for the possible joint endogeneity of all three variables as suggested by Guest and Swift (2008).

Table 1: Unit Root Test for Variables

Variable	ADF Test		Order of Integration
	Levels	First Difference	
<i>Lpgdp</i>	1.73	-3.79*	I[1]
<i>Lsavr</i>	-1.59	-5.14*	I[1]
<i>Lroi</i>	-2.41	-6.36*	I[1]
<i>Lspr</i>	-3.90*	-6.21*	I[0]
<i>Lcml</i>	-1.79	-6.19*	I[1]

Note: * indicates significant at 5 percent

Source: Authors' computations, Oct. 2015

Having established that the series in the analysis are not stationary in their levels, but at first difference, we move on to determine if they are cointegrated. When these variables are cointegrated, a long run estimation of the series with level variables will produce reliable estimates (Greene, 2003). The Johansen Cointegration method is used for this analysis because the study involves the use of multivariate estimations. The results from the multivariate cointegration test are presented in Table 2 below. As can be seen from the table, both the λ -max and Trace test statistics indicate that the five series are cointegrated and there exist at most one cointegrating vector.

Table 2: Multivariate Cointegration Test Results

Hypothesized No. of CE(s)	Trace		Hypothesized No. of CE(s)	Max-Eigen Statistic
	Statistic	Critical Value		
None *	86.28	69.82	None *	39.89
At most 1	46.39	47.86	At most 1	22.07
At most 2	24.33	29.80	At most 2	17.59
At most 3	6.74	15.49	At most 3	6.71
At most 4	0.03	3.84	At most 4	0.03

* denotes rejection of the hypothesis at 5% significance level

Source: Authors' computations, Oct. 2015

Given that the Johansen test is highly susceptible to the lag structure of the VECM estimation and arising from the results of the test, we conduct the lag selection analysis employing the Wald lag exclusion test. The result as shown in Table 3 below indicates that the two lags are expected to be retained for the VECM estimation since the test of joint significance for two lag structure is significant at the 1 percent level.

Table 3: Wald Lag Selection Test

	D(LPGDP)	D(LSAVR)	D(LROI)	D(LSPR)	D(LCML)	Joint
DLag 1	10.16	2.791	5.159	8.141471	4.243427	49.78499
p-values	[0.070]	[0.732]	[0.396]	[0.149]	[0.514]	[0.002]
DLag 2	9.034877	17.24616	5.001055	30.59094	1.140867	114.8125
p-values	[0.107]	[0.004]	[0.415]	[0.0]	[0.950]	[0.0]

Source: Authors' computations, Oct. 2015

4.2 Granger Causality Analysis

The preliminary tests of cause-effect relationships among the variables is conducted based on the Granger Causality procedure. Analysis of the results of the test shown in Table 4 below is based on significance at the 10 percent level or below. With respect to financial markets efficiency variables and economic development, the result shows that

- (i) SPR Granger cause PGDP but the reverse does not hold. This suggests that spread in interest rates in the market tends to affect the pattern of development in the economy.
- (ii) PGDP Granger cause SAVR but the reverse does not hold. This suggests that as the economy develops, the savings rate increases.
- (iii) PGDP Granger cause ROI but the reverse is not true. This suggests that as the economy develops, investors get more returns on their financial assets investment.
- (iv) There is absence of causation between PGDP and CML. This is obviously contrary to *a priori* expectation and extant empirical evidences in literature. Also, with respect to the 'systematic' causation among the financial markets efficiency variables, only CML granger causes savings rate at the 1 percent level of significance. This indicates that capital market liquidity tends to affect the rate of savings in the economy.

Table 4: Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
SAVR does not Granger Cause PGDP	33	1.22	0.28
PGDP does not Granger Cause SAVR		3.02	0.09***
ROI does not Granger Cause PGDP	33	1.16	0.29
PGDP does not Granger Cause ROI		3.10	0.09***
SPR does not Granger Cause PGDP	33	6.61	0.02**
PGDP does not Granger Cause SPR		1.17	0.29
CML does not Granger Cause PGDP	33	0.79	0.38
PGDP does not Granger Cause CML		1.84	0.18
ROI does not Granger Cause SAVR	33	0.35	0.56
SAVR does not Granger Cause ROI		0.51	0.48
SPR does not Granger Cause SAVR	33	0.20	0.66
SAVR does not Granger Cause SPR		0.19	0.66
CML does not Granger Cause SAVR	33	14.01	0.00*
SAVR does not Granger Cause CML		0.34	0.56
SPR does not Granger Cause ROI	33	0.59	0.45
ROI does not Granger Cause SPR		2.37	0.13
CML does not Granger Cause ROI	33	0.36	0.55
ROI does not Granger Cause CML		0.05	0.82
CML does not Granger Cause SPR	33	2.96	0.10
SPR does not Granger Cause CML		2.62	0.15

Source: Authors' computations, Oct. 2015

*, ** and *** indicate statistical significance at 1%, 5% and 10% levels respectively

4.3 VECM Results

The Granger causality test reported above does not provide information about the relative importance between variables that simultaneously influence each other. This is what the VECM results indicate as we analyse in this study. The long run β coefficients on the individual variables in the error correction terms (ECTs) for the relationships are given in the first panel in Table 5. The cointegrating vectors are all normalised on the coefficient for log of per capita GDP (*pgdp*) to facilitate comparison of the relationship, since this is the main variable of

interest in terms of determination. Table 5 also gives α or speed-of-adjustment coefficients on the long run ECT in the error correction model (ECM) for each variable in the system. The coefficients on the lagged differenced variables that represent the short run effects on each variable are shown in Table 6.

The coefficients of log of each of the variables (apart from CML) are positive and significant at the 1 percent level in the standardized long run estimation. The long run coefficients in the results therefore show a stable relationship between per capita GDP and savings, return on investment and interest rate spread. The coefficient of CML is however negative, indicating that in the long run, liquidity in the market may actually exert negative impact on economic growth. This is in consonance with Levine (2003). The results therefore indicate that spread in interest rate would have positive impact on economic growth in the long run, while return on investment in the capital market would also stimulate growth in the long run. Moreover, the coefficient on the ECT (α) is negative for each of the equations except that of PGDP. Thus, each of the variables will adjust to any deviation from the long run equilibrium that may occur in the short term. The goodness of fit for the short run results are however not quite impressive, judging from the R squared values reported in Table 5.

Table 5: Long Run Coefficients of the VECM

	LPGDP	LSAVR	LROI	LSPR	LCML
<i>coefficients of the error correction term (ECT) – long run results</i>	1	2.230	3.320	1.325	-1.355
		[7.23]	[6.84]	[7.29]	[-3.95]
<i>Equations of the system:</i>					
<i>Dependent variable</i>	D(PGDP)	D(SAVR)	D(ROI)	D(SPR)	D(CML)
<i>Coefficient on the ECT (a)</i>	0.0088	-0.0001	-0.0002	-0.0004	-0.0001
	[1.71]	[-0.02]	[-2.13]	[-2.42]	[-0.74]
<i>Adj. R²</i>	0.29	0.54	0.14	0.34	0.08

Source: Authors' computations, Oct. 2015, (t-values are in parentheses)

For the short run VECM results, several interesting transmission patterns emerge from the examination of Table 6. Short run changes in per capita income are negatively affected by first and second lags of savings, although only the first lag is significant. Indeed, in the short run, only first lag of savings has significant impact on per capita GDP. This result suggests that efficiency in the financial markets do not have strong short term effects on per capita income in Nigeria. For the savings equation, only the second lag of ROI is significant with positive coefficient. This indicates that savings rate tends to rise in the short run following a rise in returns on investment in financial assets. This result is quite plausible since investors in Nigeria actually increased their level of participation in the capital market (and attendant savings) during the period of high returns in the capital market in the mid-2000s. For the other equations, the results show that return on investment also has a strong positive impact on capital market liquidity in the short run. Thus, generally, the results show that returns on financial assets investment are a major efficiency factor that stimulates financial market activities. Apparently, the results suggest that while returns on investment drive efficiency, it also contributes to deepening efficiency in the market.

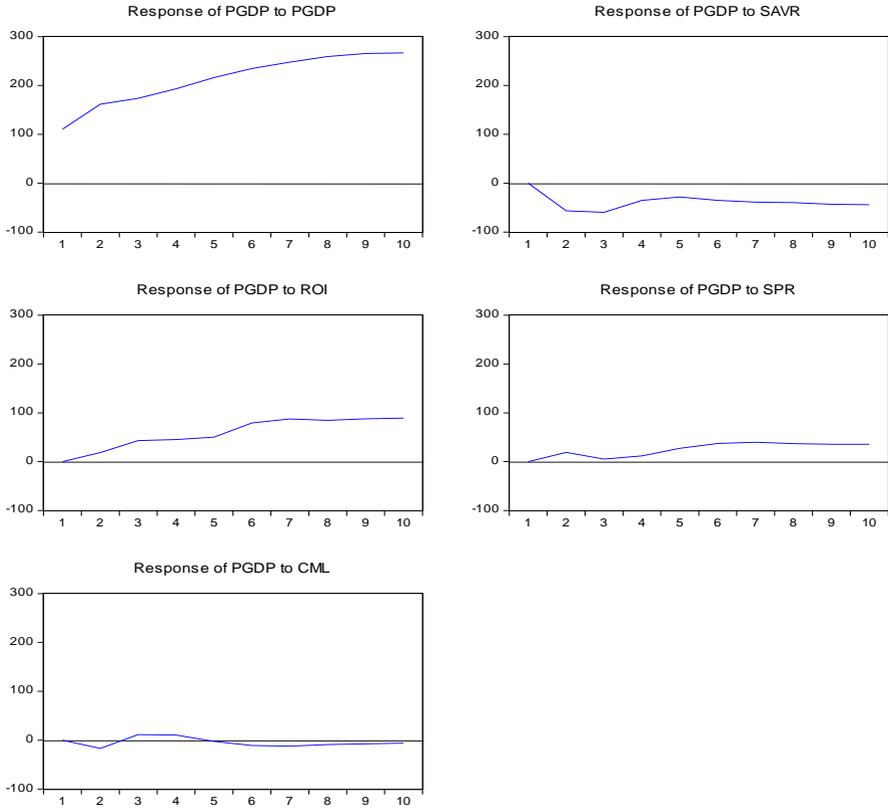
Table 6: Short Run Dynamics based on the VECM

	D(PGDP)	D(SAVR)	D(ROI)	D(SPR)	D(CML)
D(PGDP(-1))	0.40 [1.91550]	0.00 [0.28179]	0.00 [1.04113]	0.00 [-0.06241]	0.00 [0.30404]
D(PGDP(-2))	-0.20 [-1.01441]	0.00 [-0.33808]	0.00 [1.03833]	0.01 [1.45644]	0.00 [-0.25789]
D(SAVR(-1))	-35.21 [-2.18242]	0.27 [0.92339]	0.03 [0.13437]	0.81 [1.68433]	0.82 [1.82291]
D(SAVR(-2))	-4.40 [-0.37706]	0.18 [0.83296]	-0.01 [-0.04399]	0.39 [1.14168]	0.21 [0.65826]
D(ROI(-1))	-17.44 [-1.12091]	-0.17 [-0.59265]	-0.08 [-0.36384]	0.74 [1.60847]	0.94 [2.18552]
D(ROI(-2))	3.81 [0.19970]	1.09 [3.09207]	-0.23 [-0.87032]	0.32 [0.56328]	0.45 [0.84832]
D(SPR(-1))	-7.39 [-0.90221]	0.03 [0.19266]	0.14 [1.25987]	-0.40 [-1.63118]	0.08 [0.33907]
D(SPR(-2))	-7.58 [-1.11135]	0.13 [1.03239]	0.03 [0.26315]	-0.23 [-1.13671]	0.06 [0.30149]
D(CML(-1))	4.15 [0.30033]	0.18 [0.72304]	-0.22 [-1.13525]	-0.39 [-0.96427]	-0.74 [-1.92574]
D(CML(-2))	26.09 [1.85119]	-0.46 [-1.77312]	0.10 [0.48618]	-0.37 [-0.87387]	-0.52 [-1.33236]

Source: Authors' computations, Oct. 2015, (t-values are in parentheses)

Next, we consider the Impulse Response Functions based on the VAR estimates. We focus on PGDP and SAVR for the IRF charts. In Figure 1 below, it is shown that a (positive) shock to either ROI or interest rate spread tend to raise per capital income, while the shock to CML leaves PGDP rather unchanged.

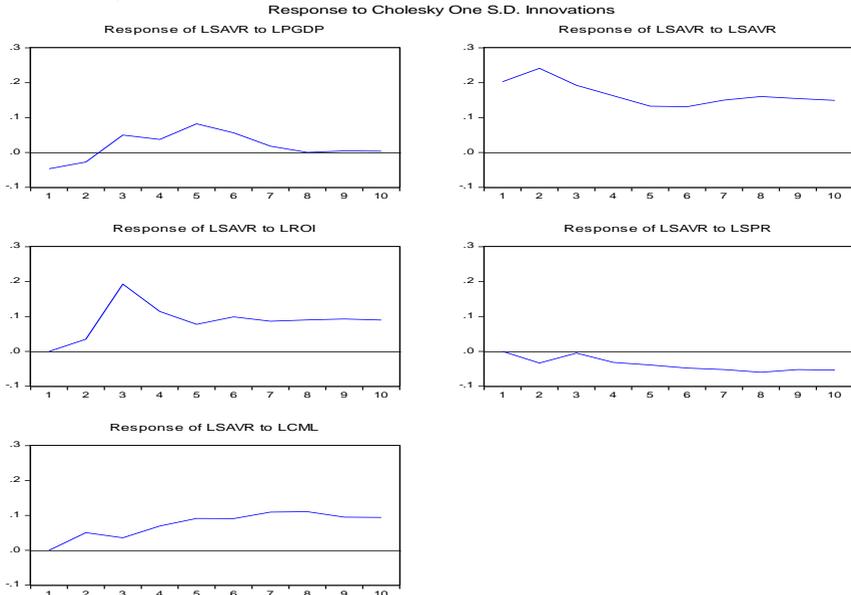
Response to Cholesky One S.D. Innovations



Source: Authors' computations, Oct. 2015

Fig. 1: IRF for Response of per capital GDP

For the IRFs on savings shown in Figure 2 below, a shock to ROI initially raises savings, then it drops and remains steady above the equilibrium level. The shock to interest rate spread however causes savings rate to fall considerably over time. The shock to market liquidity tends to stimulate savings over time.



Source: Authors' computation, Oct. 2015

Fig. 2: IRF for Response of Savings Rate

Finally, we report the Forecast Variance Decomposition results in Table 7 below. In the decomposition of PGDP, it is shown that most of the variations in PGDP were caused by itself over time. The effect of the other variables on variances in PGDP is generally low. For savings, the results show that ROI explains a great proportion of variations in savings, reaching 20.14 percentage points after the 10th period. CML also explains a large proportion of variations in savings rate beginning from the 8th period. Savings and (to some extent) PGDP are quite relevant in explaining variations in ROI. This indicates that savings and income levels are very important in explaining the level of returns in the financial markets. The results also show that interest rate spread is generally explained by SAVR, ROI, CML and SPR itself. Thus, it seems that the spread in interest rate positions are considerations of the entire market behaviour and not only a

single factor. The liquidity in the market is also shown to respond to itself majorly and to interest rate spread.

Table 7: Forecast Error Decomposition Results

Period	LPGDP	LSAVR		LROI	LSPR	LCML
Variance Decomposition of LPGDP:						
1	100.0	0		0	0	0
2	92.01	2.44		0.18	2.40	2.98
4	93.93	1.66		0.37	2.59	1.44
8	94.82	0.93		0.35	3.33	0.57
10	94.97	0.80		0.36	3.42	0.45
Variance Decomposition of LSAVR:						
1	5.01	94.99		0	0	0
2	2.73	92.72		1.13	1.05	2.37
4	2.94	70.25		22.17	0.93	3.72
8	4.18	60.36		20.31	3.03	12.12
10	3.45	59.14		20.14	3.64	13.62
Variance Decomposition of LROI:						
1	12.17	16.78		71.05	0	0
2	12.83	31.00		56.00	0.09	0.07
4	13.59	48.14		36.60	0.94	0.73
8	9.25	56.69		30.94	2.03	1.10
10	7.95	59.65		29.09	2.32	1.00
Variance Decomposition of LSPR:						
1	0.01	29.46		22.97	47.56	0
	1.35	19.71		35.00	25.55	18.39
4	7.34	24.46		42.55	14.82	10.83
8	4.43	23.30		46.64	8.95	16.67
10	3.66	23.41		48.60	7.46	16.86
Variance Decomposition of LCML:						
1	0.23	4.33		1.75	6.42	87.27
2	0.13	6.23		5.13	8.36	80.15
4	0.19	4.11		2.68	7.79	85.23
8	0.47	2.99		1.42	8.46	86.67
10	0.56	2.76		1.14	8.59	86.94

Source: Authors' computations, Oct. 2015

5. Conclusion and Policy Recommendations

This study evaluates the impact of financial market efficiency on economic development in Nigeria using data for 1980 to 2013. We measured financial market efficiency based on level of returns to investment in the market, interest rate spread and liquidity in the capital market. These factors are expected to stimulate savings rate and improve the development process in the country. The results suggest that on a direct scale, short term changes in the pace of economic development do not respond to market efficiency variables. However, in the long run, efficiency in the market tends to be quite important in explaining development. In particular, return on investment in financial assets as well as interest rate spread play important roles in generating positive long run improvement in per capita income. Moreover, return on investment was shown to have strong positive impacts on savings rate both in the short term and over time. Essentially, the results indicated that return on investment is a major efficiency factor to be considered if financial market efficiency is to be improved in Nigeria. This is because, the ROI not only provides an effective template for assessing market efficiency, but it also represents a formidable factor in entrenching efficiency in the market. Based on our findings, we recommend that policy makers should continue to strengthen the institutional and regulatory framework of the financial geography in Nigeria. This will engender a level playing ground for all market participants and hence increase the level of confidence elicited from bank depositors and stock market investors. We note also that confidence is the foundation upon which the whole edifice of the financial markets is built. With respect to capital market liquidity, we recommend that the costs of transaction should be reviewed downward. This will further enhance market liquidity. Finally, given the relative importance that returns on investment plays in the capital market, we recommend that NSEC should embark on massive awareness campaign on the benefits of electronic dividend. This will help to

significantly reduce the incidence of unclaimed dividend- a perennial monster that continues to rub investors of their returns on investment. *De facto*, the amount of unclaimed dividend to date should be recapitalized as stock dividend on behalf of investors and their beneficiaries.

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APPENDIX

Year	PGDP	SAVR	CML	PLRA	SPR	ROI
1981	3235	6.96	6.10	7.75	1.75	11.5
1982	3098.7	7.44	4.30	10.25	2.75	11.4
1983	2822.1	8.58	6.98	10	2.5	11.8
1984	2715.4	9.45	4.66	12.5	3.0	11.3
1985	2947.9	9.3	4.80	9.25	-0.25	10.4
1986	2927.5	10.35	7.32	10.5	1.0	10.6
1987	2833	9.67	4.66	17.5	3.5	9.9
1988	2970	8.83	8.50	16.5	2.0	11.2
1989	3101.9	6.23	4.77	26.8	10.4	10.7
1990	3368.5	6.27	1.38	25.5	6.7	11.7
1991	3286.9	6.92	1.05	20.01	5.72	12
1992	3292.4	6.3	1.58	29.8	13.7	10.4
1993	3264.4	7.8	1.69	18.32	1.66	7
1994	3212.8	7.93	1.49	21	7.5	6.5
1995	3205.4	3.73	1.02	20.18	7.57	8.4
1996	3260.7	3.34	2.44	19.74	8.05	7.9
1997	3277.8	4.24	3.66	13.54	8.75	9.6
1998	3292.6	5.01	5.17	18.29	12.8	8.7
1999	3254.6	5.93	4.69	21.32	15.99	6.6
2000	3333.6	5.74	5.96	17.98	12.69	7.8
2001	3407.8	7.08	8.71	18.29	12.8	7.5
2002	3479.8	7.6	7.77	24.85	20.7	7.3
2003	3720	6.61	8.86	20.71	16.6	10.8
2004	3867.9	6.99	10.69	19.18	14.99	10.5
2005	4018.9	9.01	9.07	17.95	14.12	9.9
2006	4156.7	9.37	9.18	17.26	14.12	9.5
2007	4316.1	13.04	8.16	16.94	13.39	10.6

2008	4461.5	16.95	17.56	15.14	12.3	5.3
2009	4653.9	23.25	9.75	18.99	16.32	4.4
2010	4900.4	10.9	8.07	17.59	15.38	6.8
2011	5264.4	10.37	6.22	16.02	14.61	5.8
2012	5610.9	11.24	5.47	16.79	15.09	6.9
2013	5826.2	10.81	12.32	16.72	14.55	6.2
2014	5728.1	13.49	7.91	16.55	13.17	6.8

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**EVALUATION OF THE
SOCIO-CULTURAL IMPACT OF
DEVELOPED TOURISM PROJECTS
IN SELECTED SITES IN CROSS
RIVER STATE.**

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Abstract

The study examines the socio-cultural effects of developed tourism sites in Cross River State. The study was streamlined to three specific objectives which guided in the construction of research questions and hypotheses. A working sample size of 345 copies of structured questionnaire was used to collect data from the selected Communities/sites. The data collected were analyzed using simple percentages, averages and frequencies and stated hypotheses were tested using Chi Square at 5% significant level. The results of the study showed that there is a significant relationship between socio-cultural effects of developed tourism project in Cross River State and social infrastructure, health and life style and the cultural mutilation prevention/preservation of cultural heritages respectively. It was ascertained that the sites helped in bringing in social amenities like electricity, market among others, helped in maintaining peace, promotion of cultural resources, and it is used as a means of identification. Negatively, the developed sites have increased social vices like prostitution, kidnapping, drug trafficking etc. Procedures on how to increase the positive impact through correcting negative effects were outlined. It was also recommended among others that every state should carry out impact assessment first before commencement on any development of tourism project.

1. Introduction

Nigeria is one of the countries blessed with a lot of tourism attraction. It is pertinent to note that some of these attractions have been developed by government, private sector and individuals to earn profit, through ethical means which is one of the main aims of establishing any business. Moreso, the development of these tourism projects help in transforming, maintaining and improving tourism for leisure and business. However, the implications of developing most of these sites are often overlooked in pursuit of profit by the owners of such sites

(Ukabuilu, 2012). These developed tourism projects are known to have some socio-cultural effects on the areas where they are located on the customers (tourists), inhabitants, owners and government. In Nigeria, these effects are manifest in some of the sites where tourism projects are developed. Some of these socio-cultural effects are on social infrastructure, health and life style and preservation/protection of cultural resources. It is important to note that the impact of these tourism projects are not often evaluated or at best they are half-hazardly evaluated as project implementation proceeds. (Ukabuilu, 2012)

In the same, Klein (2004) opined that “since developed tourism sites are places where people go to spend their leisure time with their friends, families or even alone to enjoy recreational activities like sports, sightseeing, food and beverages; efforts must be made to ensure that they are safe from socio-cultural hazards”. It is ideal to ensure that the locating of such projects will not be inimical to the people residing in, within and around such areas (Ukabuilu, 2012). Burns (2002) also supported this view when he said that developed tourism projects bring some impacts but some of the impacts may be positive or negative to the employers, employees and the environs.

Therefore, this study examines the socio-cultural effects of developed tourism projects in Nigeria with reference to Cross River State. The study is a post project evaluation between 2004 when the site have not been developed and 2012 when they are fully developed using the following tourism projects: Obudu Cattle Mountain Resort (OMR), Cross River National park (CRNP), and Tinapa Business and Laisure Resort (TBLR) as a case studies. These sites which represent all developed tourism projects in the state are of international standard and were selected because they have cultural resources required for the study, ranging from archaeological resources like artifacts, features and sites to ethnographic resources such as landscape features,

shrines, monuments, arts, crafts and traditional festivals. They are therefore good tourist havens. They also have accommodations, and good transport system, cable cars, angle curves, waterfalls, hills, trees and other attractions, which are good for tourists. They also have different degrees of natural and man –made attractions.

Specific objectives are:

- i To evaluate how the socio-cultural impact of developed tourism sites have affected the social infrastructure of the people of the host communities.
- ii. To examine how the socio-cultural effects of the tourism sites have affected the health and life style of the people of the host communities
- iii. To study the socio-cultural impact of developed tourism sites on the protection/preservation of cultural resources of host communities.

Conceptual and Empirical Review of Related Literature

2.1 Social Impacts: Social Impacts in this context refer to the consequences that a developed tourism project have on human population, communities or individuals. Such impacts include the ways in which people live, relate to one another, organize to meet their needs and generally cope with tourists. Hence, social impact may affect the following features of social life: population, religion, health status, education, gender relations, right over and access to resources and social structure and organization like relationship and obligations to relatives (Brown, 2008).

2.2 Cultural Impact Evaluation: This x-rays how the impacts of the developed tourism sites have affected the culture of the operational areas including cultural mutilation, loss of cultural property and deterioration of cultural resources. This study also examine how developed tourism sites were seen as a vehicle to rural/community development, conservation of cultural heritage, promotion of cultural exchange and how they have discouraged or

reduced the number of people migrating from the rural to urban centers. These would be known after an analysis of distributed copies of questionnaire, in depth interviews and field observation at selected sites.

2.2 Social Impacts of Tourism: Studies carried out by Brown and Giles (1994), Cohen (1972), Doxey (1975) and Robinson (1976) reveal that the "responses of residents in different destinations change through time in unidirectional sequences comparable to that of the resort cycle". Dorgan (1989) observed that the following were seen in Iraq where there are high negative social impacts to tourism projects development ranging from resistance, killing and crisis to kidnapping.

The framework developed by AP and Cromptom (1983) in Wall and Mathieson (2006) shows that "a place with good social impacts will be shown in the behavioural responses of people there like great tolerance, boundary maintenance, revitalization, adoption, adjustment, physical and psychological withdrawal of people where their houses were initially located indicating good acceptance and adaptability of tourists".

The success of any developed tourism site depends on the way the communities interact with tourists they come in contact with, (that is the more accommodating they are, the more demonstration effects they have). The reason for this is that tourism sites serve as meeting point where tourists on holiday often appear to local people to be wealthy, ready to spend all their time enjoying themselves and to have a few worries. This is mainly observed in the areas where the standard of living of host community is markedly below that of the visitors, in a process often referred as "demonstration effects". Local people will copy clothing; food tastes attitudes and values of people they perceived as being more sophisticated (Ward, Higson and Campbell 1996). This is often a major cause of social conflict, particularly between generations as

observed in Kisumu Mount Kenya in Kenya in 2005, and Aswan Resort in Egypt in 2002.

Fox (1997) has observed that “it is often the youths who copy from the visitors, while the adults speak out for traditional customs and values.” Some of the positive impacts noted by Dekadt (2003) at Rambias and Sagrada Famila Resort in United Kingdom were the exchange of cultural information, ideas and beliefs. Inskeep (2001) observed that developed tourism projects improved the following in United Kingdom: Basic values and logic system by 2.1% , Religious belief by 1.4% Traditions and Customs by 5.65, Life style by 5.8%, Dress codes by 4.55%, Sense of time budgeting by 11.5%, and attitude towards strangers improved by 20%

The following social impacts were observed in Disney World’s Magic Kingdom, in Lake Buena Vista Florida and National Mall and Memorial Parks, Washington, D.C. in USA by (Mann, 2007).

a) Socially, the development of these tourist sites **fosters local pride**; people from all the areas where these sites are located easily discuss and chat with people by describing their place of origin as the place we have these sites. They also feel proud when they meet people whom they know thereby saying ‘This is my Town’. All these were observed in the researches carried out by Frank (2008), Neville (2008) and Kidner (2010) at Hyde Park London; Piccadilly , London and Gun Hill Dedham, Colchester respectively.

b) Awareness and peace. This broadens the minds of tourists by seeing what is not common in their own place and the tourist generated area will also learn different model of life from tourists .As noted by AP and Crompton (1993) noted that spitting on somebody’s face in Sudan is a mark of honour reserved for very important people, but this is a taboo and mark of humiliation in all parts of Nigeria. Ukabuilu (2008) revealed that in Kalabari society

in Rivers State, the brave and titled men do accept drinks in cups with left hand, but this abhorred in Igbo land. Knowledge of all these will help people handle such culture shock amicably when they observe them. The cultural exchange that takes place between tourists and local residents also fosters peace between them.

c) Shared infrastructure: The development of any tourist site brings infrastructure which the site share in common with communities where it is located. For instance, Yankari Game Reserve Bauchi and, Ojukwu Bunker Umuahia bring in other social infrastructure ranging from good road network, electricity, telecommunications to transport system which directly help tourists to access and patronize these sites, but invariably benefits other people and towns in that environment (Okoli, 2006).

d) Socio-cultural support: The developed tourism sites provide much-needed funds to help restore heritages or conserve the sites. This is done through service and entertainment provided to tourists through dances, gifts and things which they sell.

e) Health Development: It provides a means of reducing stress through watching or participating in different recreational activities available at such site. It also makes those who participate in activities like mountain race, tree climbing and other recreational activities at such site to be physically fit as seen in participants in Black Forest tourist attraction in Southwestern Germany (Baum,2007).It provides opportunities to conserve herbal plants, grasses and shrubs needed for treatment of different ailments.

2.4.3 Cultural Impacts

It is pertinent to note that the relationship between tourists and hosts is often superficial, so their awareness and appreciation of the local culture is often limited to a very basic level. The tourists

have little time to get to understand the full significance of the local arts, crafts, beliefs and ceremonies. Ward, Higson and Campbell (1996) opine that developed tourist sites have effects on local culture in two different ways namely: positive and negative.

On positive side, the demands for souvenirs and performance have revived crafts and skills, which had fallen out of use by 18% as seen in National Poverty Alleviation Commissions program in Italy (NPACI). However, these demands are in form of products and performances, which the tourists can readily understand.

Crafts souvenirs reflect tourists' expectation more than local design and their quality can suffer because of demand for products in large quantities. The result is often described as "airport art" and hence serving as a source of living. It is also pertinent to note that our cultures have been debased in an attempt to satisfy tourists. This is seen when performance is restructured and shortened so that tourists and excursionists can be conveniently accommodated and the tourists grasp what is going on (Okoli, 2006). This often means that the original significance of the performance is lost altogether and its true purpose debased.

More so, culture changes as a result of contact with and borrowing from others, through a process called "Acculturation". This affects moral attitudes, change in fashion, and tastes. The impacts of building tourism sites have indirectly affected the production of traditional ethnic musical instruments, which have been incorporated into the production of new kinds of popular music. Dann and Cohen (1991) and Dogan (1989) also noted that developed tourism sites promote intercultural communication and the sale of material and non-material elements of host cultures. The developed sites undoubtedly enable cultures rehabilitated and make them known to the rest of the world. Smith and Brent (2001) identified that the developed tourism projects also control the direction in which the rejuvenation takes place. It is based on

this that Lindberg and Johnson (2001) opined that “success and failure of tourism sites and their effects in any environment are determined by the friendliness of (people) destination” as seen in Niagara Falls and Time Square in New York in USA.

A) Educational Development: Developed tourism sites serve the educational needs of people specializing in some disciplines. The development of tourism projects of Grand Canal Venice, Colosseum, the Pantheon, castle Saint Angola and Beautiful Basilica in Rome have served the educational pursuit of 66% of scholars (Klein 2004). Some students in the area of soil science, geology, forestry, wildlife and conservation, tourism management, botany and zoology visit these areas to see most of the items they are taught. It also encourages migration of people from all parts of the country to such area.

B) Peace and Unity: Developed tourism sites bring in peace and unity. Some villages may not be united, but when they are to perform/meet at tourism-designated sites together, their village heads have to reconcile them before the D- day thereby leading to integration. About 69% of the respondents supported this view in a research carried out by Kenneth (2009) at Felix Houphout Boigny Stadium Abidjan in Cote d’Ivoire where Abobo people have to reconcile her two communities before their traditional dance performance at the stadium in 2008.

C) Socio-Cultural Support: The developed tourist sites bring in socio-cultural support through the sale of cultural materials (souvenirs). They also realize some money through exhibition of artistical performances

3. Methodology

This explains the methods used in data collection, presentation, analyses and interpretation of data. They are elucidated under the following:

3.1 Data Collection: In this study, the relevant data were obtained through in-depth interview and structured questionnaire. For in-depth interview, four groups of people were interviewed. They include the aged, educated, illiterates and youths. These respondents include the elders in the town, union leadership, youth leaders, staff and management of the sites, taxi drivers “Okada” union leaders and women leaders. Five persons each who have in-depth knowledge of the sites and the environs were selected to represent each of the four groups leading to twenty persons per site earlier mentioned.. Adequate attention was also paid in selecting people to be interviewed because the quality of information obtained is a function of the class and type of people interviewed. This is why this formula given by Ukabuilu(2001) was applied. This is mathematically put as $R = f(C, I, Y)$. Where R = refers to result obtained from the interview, F= refers to function, C = refers to class of people to be interviewed, I = refers to interviewees who have in-depth knowledge of the area and Y = refers to years of experience of the respondents This approach forms the basis for selecting the interviewees in the areas selected. Therefore, the aged, educated, illiterate and the youth form the class of people (C), while the elders of town, unions’ leadership, youth leaders, management staff of the sites and other union leaders are observed to have in-depth knowledge of site (I) and they are likely to have more years of experience (Y) these sites is of international standard (Ukabuilu, 2012)..

The copies of structured questionnaire were administered to 394 respondents drawn from the selected communities (Bechelle, Oban/okwangwo and Adiabo) where the Obudu Mountain Resort(OMR), Tinapa Business and Leisure Resort (TBLR) and Cross River National (CRNP) are located respectively. It was drawn from a population of 24915 which was estimated 2006 population of the three communities using Taro Yamene

formula. A total of 345 copies of the questionnaire respondents were duly filled with 115 copies from each community.

3.2 Data Presentation and Analysis

Descriptive and partial statistical methods are used for data presentation and analysis. Descriptive analysis method is used by the researcher to describe further certain information collected through key informants. Statistical methods like coding in tables which is recomputed into frequency, mode, percentages and means are used to arrive at results. The results obtained are compared with information collected from informants and these helped in reaching conclusion.

3.3 Validity and Reliability of the Research Instrument

The data obtained in this study is valid because of the class of people that gave such data who were selected using the model given by Ukabuilu (2001) which was also adhered to strictly. It is also validated when the result obtained through oral interview, field observations and structured questionnaire are compared, contrasted and used to corroborate each other. To test the reliability of the instrument, the researcher after two weeks of validity test re-administer the same type of structured questionnaire and interview to twelve different people (four from each site) and ascertained that there was no deviation from the ones earlier administered. However, there are no variations in the responses obtained from the two sets of informants; these indicate that the instrument is reliable

4. Data Analysis

4.1 Social Impacts Analysis

This sub-unit explains how the developed tourism projects have affected the areas in terms of development on social infrastructure and health and life style. It also explains some of the infrastructure that came in as a result of this development.

4.1.1 Social Impacts Analysis on Infrastructure

Table 1: Determining the social impact on infrastructure (see the year it has more impact)

Variables	OMR		TBLR		CRNP	
	2004	2012	2004	2012	2004	2012
(i) Electricity	0 (=)	115 (100)	20 (17.4)	95(82.6)	50 (43.5)	65 56.5)
(ii) Market	8 (7)	107(93.)	25 (21.7)	90(78.3)	25 (21.7)	90(78.3)
(iii) Primary school	0 (=)	115 (100)	25 (21.7)	90(78.3)	25 (21.7)	90 (78.3)
(iv) Secondary school	0 (=)	115 (100)	25(21.7)	90(78.3)	25 (21.7)	90 8.3)
(v) Police station	0 (=)	115 (100)	27 (23.5)	88 (76.5)	15 (13)	100 (87)
(vi) Town hall	5 (4.3)	110(95.7)	30 (26)	85 (74)	30 (26)	85 (78.3)
(vii) Motor Park	8 (7)	107 (93)	32 (28.3)	83 71.7)	45(39.1)	70(60.9) 45(39.1)70 (60.9)
(viii) otels/Restaurant	5 (4.3)	110 (95.7)	30 (26)	85 (74)	50 (43.4)	65(56.5)
(ix)Hospital/Healthcare centre	20 (17.4)	95 (82.6)	25(21.7)	90(78.3)	55 (47.8)	60(52.3)
(x) Water supply	10 (8.7)	105 (91.3)	20 (17.4)	95 82.6)	57 (50)	58 (50)
(xi) Post office	0 (=)	115 (100)	15 (13)	100 (87)	40 (34.8)	75(65.2)
(xii) Petrol station	0 (=)	115 (100)	40 (34.8)	75(65.2)	25 (21.7)	90(78.3)
(xiii) Roads	0 (=)	115 (100)	25(21.7)	90 (78.3)		
Total	55	1440	339	1156	487	1008
Average %	4.2 (3.7)	110.8(96.3)	26.1(22.7)	88.9(77.3)	37.5(32.4)	77.5(65.6)

Source: Survey Data

Table 1 below reveals that social infrastructure have increased from an average of 3.7% to 96.3% at OMR, 22.7% to 77.3% at TBLR and 32.4% to 65.6% at CRNP from 2004 and as at 2012 respectively on infrastructure mentioned in the variables on the table.

The oral interview reveals that a lot of infrastructures were put in place as a result of the development of tourism project. At Obudu and Adiabo, a lot of roads were constructed e.g. the Bechelle people were able to see good road net work linking all the villages at the ranch, just because of OMR development. The roads from Calabar to Obudu town, Obudu to Utanga, Utanga to Bechelle were constructed to standard because of the development of OMR. A filling station was constructed at Utanga in Obaniliku, a town near Bechelle as a result of this development. An old market at Bechelle made up of thatches are now relocated and built to

standard market at the hotel road. Bechelle and Adiabo people can now boast of potable water at each of the villages and houses. Initially, it was only at Adiabo town and Obudu town that hospitals, banks and primary schools were seen, but now Bechelle, Otanga and Adiabo have Guarantee Trust Bank at Bechelle, First Bank and Union Bank at TBRL) and Union Bank at Oban town and First bank at Akamkpa. Infact the most interesting aspect of this are electricity and telecommunication which were connected from Obudu town to Bechelle which is almost 11km away. Utanga and Mazillanga communities also benefited as the electricity passes through their town (Egodo, 2009) and (Uwem, 2013).

At CRNP area, the park on its own extended most of these amenities as part of its social responsibilities. It constructed a bridge at Ebare River at Nsan, rehabilited road from Ochon – Eveyen (Etara road), rehabilited Ojor-Ifumkpa and Owai road, constructed boreholes at Ifumkpa and Ojor. It also built a six classroom block at Aking primary school, and Okoraba primary school respectively (Mbotto, 2013). It brought a medical centre at Ekurie and Owai, a programme called Support Zone Community Development Project (SZCDP) (Mbotor, 2013). The CRNP also constructed toilet at Orem health centre at Oban East in 2009. It has also renovatd Orem health centre at Oban East and constructed a new health centre at Owai Oban West in 2008. Under this SZCDP also, the park has repaired/rehabilited 1.2km support zone access roads at Bamba, Buabre, Okoroba and Old Mfamiyen respectively in 2010.

4.2 Social Impacts on Health and Life Styles

The result obtained from both structured questionnaire and in-depth interview revealed that developed tourism projects have impact on the following activities: prostitution, gossiping, kidnapping and smoking, spread of diseases, unwanted

pregnancies, lack of respect for elders, and speaking/clothing imitations.

Table 2: Respondents Evaluation on Social Impact on Health and Life Styles

Social impact on Health Style (stating the period when it is at increase)	OMR		TBLR		CRNP	
	2004	2012	2004	2012	2004	2012
i. Prostitution	25 (22)	90 (78)	45 (39)	70 (61)	15 (13)	100 (87)
ii Gossiping	35 (30)	80(70)5 (4.3)	30 (26)	85 (74)	18 (15.2)	97 (84.8)
iii Kidnapping	110(95.7)		15(13)	100 (87)	7(6.1)	108 (93.9)
iv Smoking	35 (30)	80 (70)	45 (39)	70(61)	18 (15.2)	97 (76.1)
v Spread of diseases	45 (39)	70 (61)	50 (43.5)	55(56.5)	35 (30)	80(70)
vi Unwanted pregnancy	65 (56.5)	50(43.5)	35 (30)	80 (70)	35 (30)	80 (70)
vii Lack of respect for elders	20(17.3)	95(82.7)	15 (13)	100 (87)	10(8.7)	105 (91.3)
viii Speaking imitation	17 (15.2)	98((84.8)	25 (22)	90 (78)	20 (17.3)	95 (82.7)
ix Drug trafficking	35 (30)	80 (70)	40 (34.8)	75 5.2)	15(13)	100 (87)
x Drug addiction	40 (34.8)	75(65.2)	45 (39)	70 (61)	45 (39)	70 (61)
Total	322	828	345	805	218	932
Average & %	32.2(28)	82.8(72)	34.5(30)	80.5(70)	21.8(19)	93.2(81)

Source: survey Data

Table 2 above shows that negative social impact on health have increased from an average 28% to 72% at OMR, 30% to 70% TBLR and 19% to 81% at CRNP from 2004 to 2012 respectively at these communities. In-depth interview also revealed that spread of diseases, unwanted pregnancies, lack of respect for elders, speaking imitations, drug trafficking and drug addictions have also increased. The in-depth interview reveals that ladies do come to sleep with these tourists for financial gains. It was also found that this is mainly done by the ladies within ages of 18-36 years. Esija (2013) said that more than eighteen girls from Owai and Ekuri got pregnant from tourists in 2009 and 2010. The interviewers show that though gossiping has been existing at the various areas before the development, but it has really increased (Esija, 2013).

Oral interview reveals that the state government has put adequate security measures to control this. It was also revealed by Ubot (2013) that the police have killed two major groups known for

kidnapping at Akamkpa area in early 2012. The in-depth interview also confirmed that there is increase in smoking, and the smokers are mainly illiterates. At OMR and CRNP, the leaves of Indian hemp were easily seen and consumed by youths and elders (Manyo, 2013 and Ajuk, 2013). It was revealed that unwanted pregnancies have reduced at Obudu because most of the tourists are educated, and they cherish their life too, hence they use condoms, anti-biotics drugs, and contraceptives to prevent unwanted pregnancies. Lack of respect for elders was also seen to increase from the table because most villagers are now imitating foreigners who have different culture from theirs (Adidi 2013, and Atan, 2013).

4.3 Cultural Impact

The cultural impact evaluated portrays that the developed tourism sites have impact on the cultural resources like promotion and conservation of cultural heritages, reduction of cultural mutilation, and means of identification of place of origin by indigenes.

Table 3; Determining the Respondents Evaluation on Cultural Impact

Variables	OMR		TBRL		CRNP	
	2004	2012	2004	2012	2004	2012
Induced peace						
Increased	58 (50.4)	105(91.4)	25 (21.7)	95 (82.6)	25 (21.7)	65 (56.6)
Decrease	7 (6.1)	5 (4.3)	7 (6.1)	7 (6.1)	25 (21.7)	25 (21.7)
No effect	50 (43.5)	5 (4.3)	83 (72.2)	13 (11.3.)	65 (56.6)	25(21.7)
Use of means of identification						
Increased	25 (21.7)	95(82.6)	25 (21.7)	85 (74)	65 (56.6)	98 (85.3)
Decrease	15 (13)	5 (4.3)	25 (8.7)	25 (22)	25 (21.7)	2 (1.7)
No effect	75 (65.3)	15 (13)	80 (69.6)	5 (4)	25 (21.7)	15(13%)
culture mutilation						
Increase						
Decrease	50 (43.5)	75 (65.3)	83 (72.2)	100 (87)	100 (87)	58 (50)
No effect	15 (13%)	25 (21.7)	7(6.1)	7 (6.)	15 (13%)	7 (6.1)
	50 (43.5)	15 (13)	25 (21.7)	8 (7)	0 (=)	50(43.5)
Promotion of cultural						

resources				
Increase	38 (33)	100 (87)	15 (13)	95 (82.6)
Decrease	7 (6.1)	5 (4.3)	7 (6.1)	5 (4.4)
No effect	70 (60.9)	10 (8.7)	93 (80.9)	15 (13%)
Prevention of loss of cultural property and deterioration				
Increase	25 (21.7)	98 (85.2)	15 (13%)	100 (87)
Decrease	15 (13%)	5 (4.3)	15 (13%)	2 (1.7)
No effect	75 (65.3)	12 (10.5)	85 (74)	13 (11.3)
				25 (21.7) 105 1.3%)
				8 (7) 2 (1.7)
				82 (71.3) 8 (7)

Table 3 above shows that developed tourism projects have induced peace, and promote cultural resources to the three areas. On the negative side, culture mutilation and loss of cultural property were at increase by 2012. Ama (2013: Per com) also confirmed that people now use these sites as a way of telling people where they come from. Prevention of loss of cultural property and deterioration: The data gathered reveal that the developed sites have aided in loss of cultural property and its deterioration.

Through oral interview, it was confirmed that the cultural property/resources that were negatively affected were ancestral burial grounds and their gods.. Apart from Tinapa where the villagers of Adiabo have their sacred grooves, forests, sacred animals, shrines and other places of cultural supportive which are forbidden from doing anything were destroyed and desecrated. At Obudu, the area where the Resort reception was built is a sacred area for Bechelle people, they have precious stones and trees, but they were all removed due to the development. Some of their rivers/streams were also tampered with. A place known as home of god of thunders was also destroyed at Bechelle in OMR. The traditionalists use to also go there to communicate to the gods of their fore-fathers. At Adiabo, it was revealed that the place where the theatre room was built was the area some of the villagers have their ancestral graves and at the main gate of entering Tinapa was where the trees Amikoro villagers normally worship their traditional gods were all destroyed (Eze, 2013 and Akpet, 2013).

Hence, since they see burial grounds as sacrosanct and this must not be disturbed to ensure continuity of life. They have the belief that their ancestors who were buried therein are believed to have everlasting communion with the living. This is Okpoko (1998) asserts that, "Life of ancestors begin in the verdant of tropical forest where he/she is laid to rest. Though dead, they have not become impotent. They maintained their capacity to act and continue to work with the living for continuity of life. The burial grounds are the meeting grounds of the remembrance, protection and liberation of the forest and the people are one. The living and the dead are one". On the contrary, these grooves and the lands have been defiled, the trees cut down and the land used for these projects development. It was also revealed through oral interview that CRNP was not affected much in this area because the forest is still maintained and this implied that developed tourism projects have really improved cultural impact in Cross River State.

4.4 Test of Hypotheses

Test of Hypothesis one:

H₀₁: There is no significant relationship between the Socio-Cultural Impact of tourism projects and the social infrastructure of the host communities..

Table 4.1 Responses on whether socio- cultural impacts of Developed Tourist Projects have Significant Relationship with social infrastructure in the Selected Area or not.

	Options	Community A (i)	Community B (ii)	Community C (iii)	Total
a.	Strongly	33 (59.3)	60 (59.3)	85(59.3)	178
b.	Agreed	60 (36.7)	35 (36.7)	15 (36.7)	110
c.	Agreed	15(5.7)	0 (5.7)	2 (5.7)	17
d.	Undecided	7 (5.7)	10(5.7)	0 (5.7)	17
e.	Disagreed	0 (7.7)	10 (7.7)	13 (7.7)	23
	Strongly disagreed				
	Total	115	115	115	345

Source: Field Survey Data NB: The values in braces are expected values (E).

Table 4.2 Computation of Hypothesis One Chi-square

O	E	(O-E)	(O-E) ²	(O-E) ² /E
33	59.3	26.3	691.69	11.6
60	59.3	.7	0.49	0.01
85	59.3	25.7	660.49	11.14
60	36.7	23.3	542.89	14.79
35	36.7	-1.7	2.89	0.08
15	36.7	--21.7	470.89	12,83
15	5.7	9.3	86.49	15.17
0	5.7	--5.7	32.49	5.7
2	5.7	-3.7	13.69	2.4
7	5.7	-1.3	1.69	0.29
10	5.7	4.3	18.49	3.24
0	5.7	-5.7	32.49	5.7
0	7.7	-7.7	59.29	7.7
10	7.7	2.3	5.29	0.68
13	7.7	5.3	28.09	3.65
115				94.98

To find the X²tabulated in the three tested Hypothesis, this format is used

= (c-1) (r-1) at 5% sig. level, where c = total numbers of columns and r = total numbers of rows = (3-1) (5-1) at 5% significant level

= (2) (4) at 5% significant level = 8 at 5% significant level=15.507

Hence, X^2 tabulated = 15.507; approximately 15.51.

In hypothesis one: Since X^2 calculated (94.98) > X^2 tabulated (15.51) We therefore reject Null hypothesis (H_0) and accept Alternative hypothesis (H_1), which states that “there is a significant relationship between the socio cultural impact of developed tourism projects and the infrastructure seen in these areas the sites are located.

Hypotheses Two

H_{02} : There is no significant relationship between the socio-cultural life of people and health and life style in the developed tourism projects of the host communities.

Table 5.1: Responses on whether socio- cultural impacts of Developed Tourist Projects have Significant Relationship with health and life style observed in the site

	Options	Community A (i)	Community B (ii)	Community C (iii)	Total
a.	Strongly Agreed	60 (59.3)	85 (59.3)	33 (59.3)	178
b.	Agreed	35 (40.3)	18 (40.3)	68 (40.3)	121
c.	Undecided	15(8.3)	8(8.3)	2 (8.3)	25
d.	Disagreed	5(5.7)	2 (5.7)	10 (5.7)	17
e.	Strongly disagreed	0 (1.3)	2 (1.3)	2 (1.3)	4
	Total	115	115	115	345

Source: Field Survey Data NB: The values in braces are expected values (E).

Table 5.2: Computation of Hypothesis Two Chi-square

O	E	(O-E)	(O-E) ²	(O-E) ² /E
60	59.3	0.7	0.49	0.01
85	59.3	-25.7	660.49	11.14
33	59.3	26.3	691.69	11.66
35	40.3	5.3	28.09	0.69
18	40.3	22.3	497.29	12.34
68	40.3	27.7	767.29	19.04
15	8.3	6.7	44.89	5.41
8	8.3	0.3	0.09	0.01
2	8.3	6.3	39.69	4.78
5	5.7	-0.7	0.49	0.09
2	5.7	-3.7	13.69	2.4
10	5.7	4.3	18.49	3.2
0	1.3	-1.3	1.69	1.3
2	1.3	0.7	0.49	.64
2	1.3	0.7	0.49	.64
				73.35

In hypothesis two: since X^2 calculated is greater X^2 tabulated, that is $73.35 > 15.507$. We therefore reject the Null hypothesis and accept alternative hypothesis, which states “That there is a significant relationship between the health and life style of people and the socio-cultural impact developed tourism projects at the selected sites”

Hypotheses Three

H0₃: There is no correlation between the Socio-Cultural impacts of developed tourism projects and the protection/preservation of cultural resources of the host communities

Table 6.1: Respondents Responses on whether socio- cultural impacts of Developed Tourist Projects have significant effect on protection /preservation of cultural resources at the Selected areas)

Options	Community A	Community B	Community C	Total
Strongly Agreed	40 (66)	68 (66)	90 (66)	198
Agreed	70 (41.7)	40 (41.7)	15 (41.7)	125
Undecided	0 (3.3)	7 (3.3)	3 (3.3)	10
Disagreed	5 (3.3)	0 (3.3)	5 (3.3)	10
Strongly Disagreed	0 (0.7)	0 (0.7)	2(0.7)	2
	115	115	115	345

NB: The values in braces are expected values (E). It is computed

thus:

Table 6.2 : Computation Hypothesis three Chi-square

O	E	(O-E)	(O-E) ²	(O-E) ² /E
40	66	-26	676	10.24
68	66	2	4	0.06
90	66	24	576	8.73
70	41.7	28.3	800.89	19.21
40	41.7	-1.7	2.89	0.07
15	41.7	-26.7	712.89	17.10
0	3.3	-3.3	10.89	3.3
7	3.3	3.7	13.69	4.15
3	3.3	-0.3	0.09	0.03
5	3.3	1.7	2.89	0.88
0	3.3	-3.3	10.89	3.3
5	3.3	1.7	2.89	0.88
0	0.7	-0.7	0.49	0.7
0	0.7	-0.7	0.49	0.7
2	0.7	0.7	1.69	02.4
				71.75

In hypothesis 3 since $X^2_{cal} = 71.75$ and our X^2 tabulated is 15.507) We reject the Null hypothesis (H_{03}) and accept the alternative hypothesis (H_{13}) which states that “There is a significant effect between the socio-cultural impacts of developed

tourism projects and protection /and preservation of cultural resources in the selected areas”.

5. Results, Conclusion and Recommendations

5.1 Results of the Social-Cultural Impacts.

The result of the stated hypotheses reveals that there is a significant relationship between the developed tourism projects and the socio-cultural impact on infrastructure, health and life style and preservation/protection cultural resources of people in the selected areas. They are extracted from the analysis and presented thus:

A Negative Impacts

- i) Prostitution has increased due largely to number of people who come to sleep with tourists because of financial gain.
- ii) Gossiping has also increased among villagers/ tourists to obtain one favour or the other.
- iii) Kidnapping and adult rapping crept in as a result of the new development .This state of affair was barely observed in these selected sites before this development
- iv) Smoking of cigarette and Indian hemp and other products have increased. This is mainly practiced by youths and the illiterates who learn from tourists.
- v) Spread of diseases have also increased due to unprotected sex which most of the tourists\strangers are having with both indigenes and non indigenes, coupled with the other diseases that are transferred to the air through tourists like, chicken pox, small pox which were revealed to have invaded Adiabo and Nsan in 2007 which came through tourists that came during that period.
- vi) Unwanted pregnancies are also observed to have increased. This is as a result of having unprotected sex with the tourists and people in that area and even among tourists.

- vii) Most of the indigenes have also adopted the clothing and speaking style of the tourists. Most indigenes now dress almost naked due to what they learnt from foreigners\strangers that came to the area as a result of the developed tourism projects.
- viii) It has also led to loss of cultural property. This came as a result of the cultural properties that were destroyed at sites during development. At OMR, shrines for worshipping god of lightning were destroyed during the construction. Some tourists also steal some of these cultural properties.
- ix. Cultural mutilation was also observed as another problem in this area. Some of the festivals, dances and customs are exhibited as play to tourists at part of entertainment at the sites which are supposed to be done at the time for such festivals only.
- x Drug trafficking has also increased because some people see it as opportunity to sell products to tourists or buyers who believed that they can perform well in their operations by using such drug

B. Positive Impacts

- (i) **Service Stimulus:** The developed tourism projects attracted a lot of service stimulated business at the areas like bank, Mobiletelecommunication network, police post, transportation system, hospital, Post office and electricity.
- (ii) Enhanced movement of people and good communication due to the nearly built/tarred roads in and around the designated tourism projects. Different communication network also came into being at three designations.
- (iii) Provision of pipe-borne water in Obudu and Adiabo by the state government.
- (vii) Improved medical services are recorded in Obudu, Obaniliku, Adiabo and Oban.
- (viii) Enhanced power supply through the provision of transformers and cables by state government.

- (ix) There is improved appearance of the communities; their streets are better laid and there is better hygienic system in the area general
- (x) We have good evidences of a promotion of cultural heritage as a result of the development of the tourist sites more especially at CRNP and Obudu.
- (xi) Prestige and means of identification were also improved through these developed sites in all selected sites.
- (xii) Loss of cultural properties was prevented more especially at CRNP and OMR.

5.2 Conclusion

Our findings reveal that there is a significant relationship between developed tourism projects on social infrastructure, health and life style, and protection/preservation of cultural resources on the people and environment of Cross River State. It was also concluded that the impacts were not equally distributed among the communities and among the residents. Some experienced more impacts than others.

It was concluded that the positive impacts will improve upon especially through correcting or preventing the negative impacts. This can be achieved through control of leakages that occur in the areas, putting bill boards that prohibit unwanted activities, sharing of leaflet portraying dos and don'ts of the area; proper financing and monitoring by government agencies and attaching sequential process to the use of the sites.

5.3 Recommendations

In order to improve Socio-Cultural Impacts, the following were recommended:

Every state should carry out impact assessment first before commencement on any development of tourism project.

Flyers and memos containing ways of behaving at the site should be given to those seeking for enquiry on how to visit the site.

Communities must be hospitable to tourists so as to ensure proper good relationship which will invariably affect them positively.

Bill boards should be provided indicating prohibited areas. Indecent dressing should be prohibited (through bill boards and hand bills).

Musical volume and other forms of noise should be controlled through monitored activities of participants.

Ministry of health and non governmental agencies should also put bill boards to create awareness on AIDS/HIV and other related diseases transmitted through unprotected sex in the town/communities.

People should be cautioned on the use of drugs and implications within the state.

Proper monitoring should be put in place especially in areas of smuggling in ammunition into the state to prevent kidnapping and armed robbery.

Rules and policies should be made by government to prevent the stealing of artifacts and sculptures from the state, with the help of management of the site, state security agents and the community in general. This will help to prevent loss of some of our cultural properties.

Different traditional rulers should also encourage the participation of their people in most cultural events.

Culture exhibition, festivals and customs must be done as at the period they are supposed to take place despite the ones done at the site as drama exhibitions for entertainment of tourists.

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Appendix

BACKGROUND

Name of Community.....

(1) About Yourself

Sex: Male Female

2) Age: a) 21 – 30 yrs.() b) 31 – 40 yrs.() c) 41 – 50 yrs.() d) 51 - 60- yrs.() d) 61 - 70 yrs. e) Above 70 yrs. ()

3) How would you describe yourself in this community?

a) Indigene () b) Visitor () c) others (Specify).....

4) How long have you lived here? (a) Less than 5 yrs. () b) 6 – 10 yrs.() c) 11 - 15 yrs. () d) 16 - 20 yrs. () e) above 20 yrs. ()

5) How much do you know about the site? A) Little knowledge () (b) Much knowledge () c) No knowledge ()

6) Marital Status a) Single () b) Married () c) Divorce () d) Widow/widower()

7) What is your occupation? a) Farming () b) Fishing () c) Civil Servants () d) Trading () e) Artist () (f) Business (Specify type) e) others Specify...

8) What is your level of education? a) Primary School () b) Secondary School () c) Tertiary School () d) Vocational School () e) No Formal Education

9) What is your religion? a) Christianity () b) Islam () c) Traditional () d) Others Specify)...

10) What position do you hold in your community? a) Traditional Ruler() b)Religious Ruler() c) Family Head() d) Chairman/ Union Leader ()

e) Others (Specify).....

PLEASE TICK THE YEAR WE HAVE THESE FACILITEIES ARE IN LARGE NUMBER

	Socio-Cultural Effect	2004	2012	2004	2012	2004	2012
	Social impact on infrastructure	OMR		TBRL		CRNP	
	Comment on the year when these facilities are improved to be better off to you						
-	Electricity						
-	Communication system						
-	Market						
-	Primary school						
-	Police stations						
-	Town hall						
-	Motor park						
-	Hotels/restaurant						
-	Hospitals / health care centers						
-	Water supply						
-	Post office						
-	Filling stations						

Social Impact on Health / Life Style

	Variables	OMR	TBLR	CRNP
		2004	2012	2004
				2012
i.	Prostitution			
ii.	Gossiping			
iii.	Kidnapping			
iv.	Smoking			
v.	Spread of diseases			
vi.	Unwanted pregnancies			
vii.	Lack of respect for elder			
viii.	Spreading imitation			
ix.	Drug trafficking			
x.	Drug addiction			
	Cultural Effect			
i.	Induced peace Increase			

	Decrease No effect			
ii.	Use as a means of Identification Increase Decrease No effect			
iii.	Reduction culture mutilation Increase Decrease No effect			
iv.	promotion of cultural exchange Increase Decrease No effect			
V	Prevention of loss of cultural property and deterioration of cultural			

- (a) Do you agree that these infrastructure occurred as a result of developed tourist site A).Strongly agreed b) Agreed c) undecided d) Disagreed e) strongly disagreed
- (b) Do you agree to developed tourist site have a strong relationship with health and life style of people in the community A).Strongly agreed b) Agreed c) undecided d) Disagreed e) strongly disagreed
- (c) Do you agree to developed tourist site have a strong relationship with protection and preservation of cultural resources in the community A).Strongly agreed b) Agreed c) undecided d) Disagreed e) strongly disagreed

Appendix II

Interview Guide For Key Informants (Open – Ended Questions)

- (1) Name of your community
- (2) List all the impacts that were induced because of the developed tourism site.
 - (a) Positive.....
 - (b) Negative.....

- (c) What was the state of your roads, water supply, electricity, hospitals, civic halls and other social amenities prior to the developed tourism site?
- (d) Which amenities are initiated after a tourism site has been developed?
- (e) How has this developed tourism site induced prostitution, drug trafficking, and kidnapping?
- (f) How can you rate them as: severity, moderate and insignificant?
- (g) How has it affected smoking, spread of diseases, and unwanted pregnancy?
- (h) How has it affected the life style of your community in terms of dressing, respect for elders, speaking and boldness?
- (i) How has the developed tourism site affected medical services, feeding, and good communication network?
- (j) What proportion of land (%) vis -a- vis other usable land has been taken for tourism site development?
- (k) How has this developed site affected the fish producers, and hunters?
- (l) How has it affected those involved in production or transmission pole bamboo, raffia, firewood, and chewing stick production?
- (m) What effects has it on snail, bush meat and medicinal plant production?
- (n) How has it affected other seafood's production?
- (o) a. Give names of streams, springs, rivers and other sources of water that your community has been using.....

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**INTEREST RATE POLICY AND
THE NIGERIAN ECONOMY**

BY

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ABSTRACT

This paper examined the impact of interest rate policy on growth rate of gross domestic product in Nigeria (1986-2012). The paper relied on secondary data. Both descriptive and analytical methods were employed. Regression model was used to test the hypotheses formulated. Results showed that lending rate and monetary policy rates exhibit a positive relationship. Moreso, explanatory variables account for changes in total output in the Nigerian economy. It was also noted of the inability of savings rate to predict total output and gross domestic product growth rate. It is concluded that interest rate has a significant but negative impact on total output and manufacturing capacity. From the above, it is recommended, among others, that interest rate reforms should be a component of broad packages to facilitate financial intermediation and monetary management to stimulate the Nigerian economy.

1. Introduction

Economic transactions in any given economy like Nigeria are stimulated or depressed by some variables. One of such outstanding variable is interest rate. Interest rate is the cost of capital and it plays a crucial role in the performance of macro-economic stabilization in Nigeria and the world at large. Interest rate usually has economic impact as determinant of consumption, savings and investment, and as an indicator and influential element in economic growth. (Obadeyi, Akingunola and Afolabi 2013)

Interest rate is a monetary phenomenon and forms the target of monetary policy in Nigeria. Monetary policy is operated with different objectives over the years to adjust the supply of money in an economy in order to achieve some combination of inflation control and output growth. The Central Bank of Nigeria (CBN) has the responsibility to adopt various monetary policy tools like 'Monetary Policy rate'(MPR) to harmonize growth rate of Nigeria(Onoh 2007). As such there is direct casual relationship between movement of monetary policy rate of CBN and commercial interest rate movement.

The financial system is central for economic growth of any economy, due to interlocking linkage that exist between the financial and the real sectors of the economy. Financial intermediation process facilitate capital formation and stimulate economic growth. Consequently, the growth of the real sector is influenced by the financial sector performance on how resources are channeled.

The Central Bank of Nigeria on behalf of the Federal Government to achieve reasonable employment, stability in prices and standard economic growth influences interest rate to stimulate investment and consumption in the economy (Akpan 2012). To that extent, when monetary policy rate is increased, lending rates are expected to increase. Moreso, high lending rates impedes investment and borrowing which affects savings adversely and whereas, increased saving propelled more variable funds. It is noted that interest rate has direct bearing on economic factors such as saving, investment and gross domestic product. The implication is that high interest rate decreases borrowings by the productive sector for investment, whereas decreased investments leads to low capital formation which causes a decline in Gross Domestic Product and output which is the standard measure index for economic growth. (Akpan 2014)

The advent of Structural Adjustment Program (SAP) in 1986 differed from the regime control of interest rate to market oriented process anchored on efficient resources allocation and market determined price(s). The introduction of interest rate reform in 1987 brought some positive change in real Gross Domestic Product(GDP) growth rate. By 1996, interest rates were fully deregulated with the banks given the freedom to determine the structure of interest rates in consultation with customers (Nyong 2007) with CBN retaining its discretionary power of intervention in the market. The disparity between deposit and lending rates by banks, the adoption of the deregulation which has not yielded

needed resultant growth rate of domestic product, lending rate/savings rate and monetary policy rate in Nigeria is what this article is designed to introduce green light. Specifically, the objectives of the study are:

1. To investigate the relationship between growth rate of Gross Domestic Product and interest rate policy (Lending Rate, Savings and Monetary Policy Rates).
2. To examine the relationship between capacity utilization rates, lending rate, savings rate and monetary policy rate

2. Theoretical Framework

Various theories of interest rate and economic growth interface to explain a variety of factors that determine interest rate and economic growth. For the purpose of this article, the research is based on Keynes Liquidity Preference theory of interest rate and the Neoclassical theory of economic growth.

2.1 Keynes Liquidity Preference Theory

Keynes (1966) defines the rate of interest as the reward of not hoarding but the reward for parting with liquidity for the specified period. It's the price which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash. This theory holds that the market rate of interest will be determined by the quantity of money in the economy and the degree of liquidity preference. Referring to liquidity preference theory, an increase in the quantity of money will lower the interest rate and a decrease in the quantity of money will force the interest rate upwards. On the other hand, with a given quantity of money, a strengthening of liquidity preference will cause a decrease in the rate of interest. The theory as enunciated by Keynes seeks to explain the level of interest rate with regard to the interaction of two important factors of the supply of money and the desire to hold savings in cash or near cash. Keynes did not accept the postulation of the classical theory, that savings and investment are always equated by interest

rate. He added that not all savings are directly invested so that the rate which clears the market will not necessarily establish equilibrium between savings and investment. Keynes further posited that the determinants of interest rate will be found in the money market and those are the supply and demand for money.

Supply of Money: The supply of money refers to the total quantity of money in the country for all purposes at any time. It is a function of the rate of interest to a degree, yet considered to be fixed by the monetary authority, that is, the supply curve of money is taken as perfectly elastic.

Demand for Money: The demand for money is the premium which has to be offered to induce people to hold the wealth in some form other than hoard money. If the demand for money increases or decreases given the supply of money, the rate of interest will rise or fall.

Natural and market rate of interest

This theory was first discussed by Knut in 1898 that the ordinary rate, nominal rate and real rate are synonymous to the natural rate. The natural rate is the “rate of interest at which the demand for loan capital and supply of savings, exactly agree, and which or more corresponds to the expected yield on the expected preference in the loan market”. It is the rate of interest charged by banks or lenders. It depends upon the demand and supply of money.

2.2 Theories of economic growth

There are basically two economic growth theories; neoclassical growth theory and endogenous growth theory.

a. Neoclassical growth theory

The economist Solow (1956) developed the neoclassical theory of economic growth. He postulated that growth comes from adding more capital and labour inputs also from ideas and new

technology. The Solow model believes that a sustained rise in capital investment increases the growth rate only temporarily because the ratio of capital to labour goes up.

A steady growth rate is reached when output, capital and labour are all growing at the same rate. Neoclassical economist believes that to raise the trend, rate of growth requires an increase in the labour supply and also a higher level of productivity of labour and capital. Differences in the rate of technological change between countries are said to explain much of the variations in growth rate. The neoclassical model treats productivity improvements as an exogenous variable. They are assumed to be independent of the amount of capital investment.

b. Endogenous growth theory

Endogenous growth economist believes that improvement in productivity can be linked directly to a faster pace of innovation and investment in human capital. The major points of the endogenous growth theory are as follows;

- a. Government policies can raise a country's growth rate if they lead to more intense competition in markets and help to stimulate product and process innovation.
- b. There are increasing returns to scale from capital investment.
- c. Private sector investment in research and development is a key source of technical progress.
- d. Investment in human capital (the quantity of the labour force) is a key ingredient of growth.
- e. Growth policy should encourage entrepreneurship as a means of creating new business and intimacy as an important source of new jobs, investment and innovation.

2.3 The concept of interest rate

The use of interest rate as economic management has increasingly come into sharp focus. Funds that are borrowed are used in the three major sectors of the economy.

- a. Consumers borrow money to acquire goods/services
- b. Investors borrow funds to acquire new machines to use in production of other goods and bringing goods to the market.
- C. Government borrows funds for various production purposes such as creating social goods and services.

Interest rate therefore is the price paid for the money borrowed or for loan- able funds. It is the amount of return received by the owner of funds for their use. According to McConnell and Brue (2008:32) the subject of interest rate determines the amount or the national income that goes to those who supply capital and for practical purpose which is the reward of capital (loan able funds). Interest rates are set by market conditions. Culbertson (1972) asserted that interest rate is a price set like other prices in the market by voluntary dealing between buyers and sellers

Expert have argued that interest rates are the reward for parting with liquidity for a specific period of time. It is therefore the price which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash, that is, the price of credit. Interest rate is the price paid for the right to borrow and use of loan- able funds is the cost of holding money. From the point of view of the different scholars, it is pertinent to say that interest rates, the price paid for a debt is one of the economic variables that has caught the attention of money determinant of investment from both the individual and institutional perspectives.

Interest rate can be categorized as nominal or real (Pandey, 2010:811). Nominal interest rate is observed rate of interest incorporating monetary effects while real interest rate is arrived at by considering the implication of inflation on nominal interest rate (Uchenedu 1993:35; Essia, 2005; 82).

2.4 Empirical Review

Savings and investment are the primary instruments for economic growth and which enhances increase in national income. To increase production, capital formation is a crucial determinant backed by appropriate volume of savings. In Nigeria, the impact of interest rate on macroeconomic variables have generated a number of empirical works. The Keynesian investment theory implies that low interest rate as a component of cost is detrimental to increase savings and demand for investment.

He argued that increase in the real interest rate will have strong positive effect on savings which can be utilized in investment, because those with excess liquidity will be encouraged to save because of high interest rate. In effect banks will have excess money to lend to investors to raise the volume of productive investment. Wai (1972) agreed that, the greater the development of financial institutions, the larger will be the amount of realized savings.

The empirical works of McKinnon (1973) supports the hypothesis that, interest rate determine investment. As cost of capital interest rate encourages loans Gerschenkron (1963) maintained that; banks are most likely to have an impact on capital formation in an economy where the level of business trust is satisfactory and the banks risk aversion is low. Financial institutions today in developing countries, should realize that almost every economic decision and behaviour represents a trade-off between risk and income, and that the institutional structure of free enterprise capitalism is designed to encourage economic units to assume risks by providing them with the opportunity to reap financial gains commensurate with risks.

Agu (1988) reviewed the determinants and structure of real interest rates in Nigeria from 1970-1985 and noted the negative effect of low real interest rate on savings and investment using

McKinnon financial repression diagram. He concluded that the relationship between real interest rates, savings and investment is inconclusive.

On the other hand, Gregorio and Guidotti (1995) stated that the relationship between interest rates and economic growth may resemble a u-inverted curve. They maintained that very low and negative rates tend to be the cause of financial disintermediation and which reduces economic growth. Consequently, financial repression hypothesis argued against imposition of control on financial structure and development, but strongly favours reliance on market forces. The hypothesis is associated with the works of Cameron, McKinnon and Shaw. They supported the efficiency of financial development to make a significant contribution to economic development. Adding that, repressed financial system negate the realization of potential contribution to a given economy.

Albu (2006) studied trends on the interest rate, investments, GDP growth relationship. The study used two partial models to examine the impact of investment in the case of Romania economy. The study found out that the behaviour of the national economy system and interest rate-investment relationship tends to converge to those demonstrated in the normal market economy.

Moreso, Obamuyi (2009) studied the relationship between interest rate and economic growth in Nigeria. The study adopted co-integration and error correction modeling techniques which revealed that lending rate has significant effect on economic growth. The study recommended that, investment friendly interest rate policies are necessary to promote economic growth and ease of implementation.

3. Methodology

The author adopted descriptive and analytical research methods which aids the measurement of relationship among variables as

used in this article involving lending, monetary policy, savings, Gross Domestic Product, capacity utilization and total output rates. Consequently, the paper adopted ex post factor design relying on existing data.

Research Area/Data: The paper is focused on interest rate policy and the Nigerian economy. Secondary data were sourced from Central Bank of Nigeria, International Monetary Fund, Bureau of Statistics and website. The study covered 1986 to 2012 (26 years) which is the period of deregulation.

Model Specification

In this study, it is postulated that the growth of the Nigerian economy is represented by Gross Domestic Product growth rate (GDPr), Capacity utilization (CUR) and Total output (TO), while interest rate policy is represented by lending rate (LR), savings rate (SR) and monetary policy rate (MPR).

The general multiple regression models is given as

$$Y = a_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_nX_n + e$$

Thus the model and the regression equations are given thus:

$$GDPr = a_0 + b_1LR + b_2SR + b_3MPR + e$$

$$CUR = a_0 + b_1LR + b_2SR + b_3MPR + e$$

Where: GDPr (Y) = Gross Domestic Product growth rate

CUR (Y) = Capacity utilization rate

TO (Y) = Total output

LR = Lending rate

SR (X) = Savings rate

MPR (X) = Monetary policy rate

a0 = Regression constant

b_1 - b_n =Regression coefficient

X_1 - X_n = Independent variables

e = Random error

4. Data Presentation, Analysis and Interpretation of Results

This section presents, analyze and interpret the data that were collected for the study. The data were collected from secondary sources and are analyzed here with the use of multiple regression models. They are first presented in the tables below

Data Presentation

Table 1: The relationship between Gross Domestic Product Growth Rate (GDP_r) and Lending Rate (LR), Savings Rate (SR) and Monetary Policy Rate (MPR) from 1986-2012

YEARS	GDP_r	LENDING RATE %	SAVINGS RATE %	MONETARY POLICY RATE %
1986	-8.8	10.5	9.5	10
1987	-10.3	17.5	14	12.75
1988	6.9	16.5	14.5	12.75
1989	6.5	26.8	16.4	18.50
1990	12.8	25.5	18.80	18.50
1991	-0.6	20.01	14.29	14.50
1992	0.6	29.80	16.10	17.50
1993	2.4	18.32	16.66	26
1994	0.58	21.00	13.50	13.5
1995	0	20.18	12.61	13.5
1996	4.7	19.74	11.69	13.5
1997	2.8	13.54	4.80	13.5
1998	2.7	18.29	5.49	14.31
1999	0.53	21.32	5.33	18
2000	5.2	17.98	5.29	13.5
2001	8	18.29	5.49	14.31
2002	21.2	24.85	4.15	19.00
2003	10.3	20.71	4.11	15.75
2004	10.3	19.18	4.19	15
2005	6.6	17.95	3.83	13
2006	6.2	17.26	3.14	12.25
2007	6.4	16.94	3.55	8.75
2008	6.2	15.14	2.84	9.81
2009	7.1	18.98	3.38	6

2010	7.8	16.00	1.49	6.25
2011	6.8	16.69	1.41	12
2012	6.5	16.51	1.69	12

Source: Central Bank of Nigeria Statistical Bulletin for the various years

Table 2

The relationship between Capacity Utilization Rate (CUR) Lending Rate (LR), Savings Rate (SR) And Monetary Policy Rate (MPR) from 1986-2012

YEARS	Capacity Utilization Rate %	LENDING RATE %	SAVINGS RATE %	MONETARY POLICY RATE %
1986	38.8	10.5	9.5	10
1987	40.4	17.5	14	12.75
1988	42.4	16.5	14.5	12.75
1989	43.8	26.8	16.4	18.50
1990	40.3	25.5	18.80	18.50
1991	42.0	20.01	14.29	14.50
1992	38.1	29.80	16.10	17.50
1993	37.2	18.32	16.66	26
1994	30.4	21.00	13.50	13.5
1995	29.29	20.18	12.61	13.5
1996	32.46	19.74	11.69	13.5
1997	30.4	13.54	4.80	13.5
1998	32.4	18.29	5.49	14.31
1999	34.6	21.32	5.33	18
2000	36.1	17.98	5.29	13.5
2001	42.7	18.29	5.49	14.31
2002	54.9	24.85	4.15	19.00
2003	56.5	20.71	4.11	15.75
2004	55.7	19.18	4.19	15
2005	54.80	17.95	3.83	13
2006	53.30	17.26	3.14	12.25
2007	53.38	16.94	3.55	8.75
2008	53.84	15.14	2.84	9.81
2009	55.4	18.98	3.38	6
2010	56.22	16.00	1.49	6.25

2011	56.24	16.69	1.41	12
2012	56.49	16.51	1.69	12

Source: Central Bank of Nigeria Statistical Bulletin for the various years

Data Analysis

Table 1 present the relationship between Gross Domestic Product Growth rate (GDP_r) and Lending Rate (LR), Saving Rate (SR) and Monetary Policy Rate (MPR).

From the table, lending rate within 1986 to 1990 witnessed astronomical changes at a greater trend from 10.5% in 1986 to 25.5% in 1990, showing a percentage increase of 142.9%. Savings rate showed the same trend with an increase of 19.9%. This could be attributed to the interest rate deregulation of 1986, where savings and lending rates were allowed to be determined by the market forces and the interest rate actually increased as envisaged. Monetary policy rate also indicated a percentage increase of 85%. Gross Domestic Product growth rate witnessed unstable changes during the period under review. From 1986 to 1990, Gross Domestic Product growth rate declined at the beginning but later increased. In 1986 it was -8.8% but later increased to 6.9% in 1988 and 12.8% in 1990, meaning that within the period under review (1986-1990) GDP_r increased by 245%.

The next five years reviewed revealed a declined trend in Gross Domestic Product growth rate from -0.6% in 1991 to 0% in 1995. In the case of lending rate, federal government intervened and pegged the lending rate at 20.01%. However it increased to 29.80% in 1995 but kept fluctuating during this period and stood at 20.18% in 1995 showing a 32.3% decreased. Savings rate was 14.29% in 1991 and decreased to 16.69% in 1993 but fell to 12.61% at the end of the period showing an 11.8% decrease during the period. The monetary policy rate was unstable within

this period showing a 6.9% decrease at the end of the period. Between 1996 to 2000, GDP witnessed a positive growth rate of 47% at the beginning of the period but kept on fluctuating with an increase of 10.6% at the end of the period.

Lending rate did not show a significant trend in reduction. It was high and volatile and stood at 17.98% at the end of the period. Savings rate declined in this period. In 1996, it was 11.69% at the end of the period it was 5.29 showing a 54.7% decrease while monetary policy rate showed minimal fluctuations.

Between 2001 and 2005, the Gross Domestic Product growth rate was at the increase reaching a peak of 21.2% in 2002. Lending rate in this period was high with a peak of 24.85%. Savings rate showed consistent decrease with a 30.2% decrease. The monetary policy rate kept fluctuating during this period with a peak of 19% in 2002.

After 2005, gross domestic product growth rate began to fall gradually though it remained positive. The lending rate witnessed minimal variations and fell to 16.51% in 2012 from 17.26% in 2006. The savings rate dropped from 3.83% in 2005 to 1.69% in 2012 indicating a 55.9% decrease. Monetary policy rate in Nigeria averaged 9.14% from 2007 until 2012, reaching a peak of 12% in 2011 and a low record of 6% in 2009.

Table 2

The relationship between capacity utilization rate and lending rate, savings rate and monetary policy rate is shown in table 2. Except utilization rate, all other variables are those presented in table 1.

Considering the first 5 years period (1896-1990) capacity utilization rate increased as savings rate increased. It rose from 38.8% in 1986 to a peak of 43.85% in 1989 and fell to 40.3% in

1990. It recorded an increase of 3.7% within this period. Within 1991-1995 capacity utilization rate showed a declined trend from 42.0% in 1991 to 29.29% in 1995 indicating a 31% decrease. Within this period, savings showed a declining trend while monetary policy rate and prime lending rate were unstable this period. The unimpressive capacity utilization rate is mainly due to massive importation of finished goods and inadequate financial support to the manufacturing sector which ultimately has contributed to the reduction in the capacity utilization of the sector in the economy. Within the period of 1996 and 2000, CUR witnessed an 11.2% increase with a peak of 36.1% in 2000. CUR was on the increase on the year afterwards. It remained relatively constant between 2005 and 2007 and rose to a peak of 56.49%. On the whole the analyses showed that CUR improves as lending rate and monetary policy rate decreases.

Regression result for the relationship between Gross Domestic Product growth rate lending rate, savings rate and monetary policy rate.

Variables entered/removed

Model	Variables Entered	Variables Removed	Method
1	InMpr, InLr, InSr ^a		Enter

a. All requested variables entered

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error the Estimate
1	.355 ^a	.126	-.012	.97062

a. Predictors: (constant), InMpr, InLr, InSr

ANOVA^b

Model	Sum of	Df	Mean	F	Sig
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	Squares		Square		
Regression	2.586	3	.862	.915	.452 ^a
Residual	17.900	19	.942		
Total	20.486	22			

a. Predictors: (Constant), InMpr, InLr, InSr

b. Dependent Variable: InGDPr

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	1.556	3.756		414	.683
InLr	.293	1.384	.058	.212	.834
InSr	-.459	.360	-.379	-1.275	.218
InMpr	-.035	.805	-.012	-.043	.966

a. Dependent variable: InGDPr

Test of Hypotheses

This section is designed to test the hypotheses formulated in section one. It is meant to determine the relationship that exists between interest rate movement and the Nigerian economy.

To ascertain this link, multiple regression models are used to test hypothesis one and two.

Hypothesis one

H₀: There is no significant relationship between Gross Domestic Product growth rate and lending rate, savings rate and monetary policy rate.

The model to examine the hypotheses is stated below as

$$GDPr = a_0 + b_1LR + b_2SR + b_3MPR + e$$

The summary of the regression result obtained from table 1 was

$$\text{GDP}_r = 1.556 + 0.293\text{LR} - 0.459\text{SR} - 0.35\text{MPR} + e$$

t values (0.414) (0.212) (-1.275) (-0.0043)

$R^2 = 12.6\%$ $\text{ADJ } R^2 = 1.26\%$ $\text{DF } (19,3)$ $F_{\text{cal}} = 0.915$ (see appendix for regression)

From the above regression result, it was observed that within the period under review (1986-2012), the average Gross Domestic Product growth rate increased by 1.556%. It showed that for every one percent increase in Lending rate, Gross Domestic Product growth rate increased by 0.293 LR. One percent increase in savings rate and monetary policy rate reduces Gross Domestic Product growth rate by 0.459% and 0.35% respectively.

To establish the statistical significance of the independent variables, the t-test was conducted. It was observed that none of the independent variables impacted significantly on the independent variable. This is because none of independent variables recorded a calculated t value up to the tabulated t value of 1.71, i.e. lending rate had t statistical of 0.212, and saving rate had a calculated statistic of -1.275 while monetary policy rate had a calculated statistical of -0.43.

Moreover at 95% level of significance and 18 degree of freedom, the calculated f value, f_{cal} is 0.915 compared with the table value of f_{tab} which was 3.16. The decision rule is when f_{cal} is greater than f_{tab} , the null hypothesis is accepted. So for f_{tab} greater than f_{cal} , the null hypothesis which states that there is no significant relationship between Gross Domestic Product growth rate and lending rate, savings rate and monetary policy rate is accepted.

Additionally, the value of R^2 is 12.6% this indicates a predictive explanatory power of the regression model. That is to say the independent variables are only to explain 12.6% of the variations

in the independent variable. The remaining 88.4% variations in Gross Domestic Product growth rate are caused by variables not included in the model.

Regression result for the relationship between Capacity utilization rate, lending rate, savings rate and monetary policy rate.

Variables entered/removed

Model	Variables Entered	Variables Removed	Method
1	In Mpr, InLr, InSr ^a		Enter

a. All requested variables entered

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702 ^a	.492	.426	.17357

a. Predictors: (constant), InMpr, InLr, InSr

ANOVA^b

Model	Sum of Squares	Df	Mean square	F	Sig
Regression	.672	3	.224	7.438	.001 ^a
Residual	.693	23	.030		
Total	1.365	26			

a. Predictors: (Constant), InMpr, InLr, InSr

b. Dependent Variable: InCUR

	Unstandardized Coefficients	Standardized Coefficient	
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Model	B	Std. Error	Beta	T	Sig
(constant)	3.514	.497		7.071	.000
InLr	.298	.192	.274	1.552	.134
InSr	-.201	.052	-.695	-	.001
InMpr	-.098	.141	-.136	3.876	.492
				.698	

Coefficients^a

Dependent variable: InCur

Hypothesis two

H₀: There is no significant relationship between capacity utilization rate and lending rate, savings rate and monetary policy rate.

The equation is given as

$$CUR = a_0 + b_1LR + b_2SR + b_3MPR + e$$

The summary of the regression result obtained from the equation is

$$\text{CUR} = 3.514 + 0.298\text{LR} - 0.201\text{SR} - 0.098\text{MPR} + e$$

$$t \text{ values} = (7.071) \quad (1.552) \quad (-3.876) \quad (-0.698)$$

$R^2 = 49.2\%$ $\text{ADR } R^2 = 42.6\%$ $\text{DF} = (23,3)$ $F_{\text{cal}} = 7.438$ (see appendix for regression)

For the period under study, the average capacity utilization rate increased by 3.514%.

Then for every 1% rise in lending rate, capacity utilization rate increases by 0.298%. a one percent increase in saving rate and monetary policy decreases capacity utilization rate by -0.201% and -0.098% respectively.

In establishing the statistical significance of the independent variables, the t test was conducted. The decision rule is that when the calculated value of t is greater than the table or critical value of t, the influence of the variable is statistically significant. When t_{cal} is less than t_{tab} , the influence of the variable is statistically insignificant; in this case the table value of t is 1.71. From the regression result, the calculated value for lending rate was 1.552 the calculated value of t for savings rate was -3.876 while the calculated value of t for monetary policy rate was -0.698. None of the independent variables impacted significantly on the independent variable. This is because none of the independent variables recorded a calculated t value up to the tabulated t value of 1.71

However, at 95% level of significance and 22 degree of freedom, the calculated f value is 7.438 compared with the table value of f which was 3.05. For the calculated value of f larger than the critical value of f the null hypothesis which states that there is no significant relationship between capacity utilization rate and

lending rate, savings rate and monetary rate is rejected and the alternative hypothesis accepted. In other words, a significant relationship exists between capacity utilization rate and lending rate, savings rate and monetary policy rate.

The value of R^2 is 49.2%. This indicates a marginal predictive explanatory power of the regression model. That is to say that the independent variables are able to explain 49.2% of the variations in the independent variable. The remaining 51.8% variations in total output are caused by variables not included in the model.

Discussion of Findings

- a. From the analysis, lending rate and monetary policy rate exhibits a positive relationship. When monetary policy rate rises, lending rates moves in sympathy. The relationship confirms that monetary policy rate can be an effective monetary policy tool in influencing the direction of the economy as an increase or decrease in, this can cause lending rates to increase or decrease.
- b. The results revealed that the explanatory variables account for changes in total output of the Nigerian economy. Total output relates inversely to interest rate. This confirms theoretical arguments that: When monetary policy rate and lending rate are high, investment and capital formation are impaired, because investors prefer low interest rate to high interest rate, leading to a reduction in total output. When lending rate is low, optimum resources allocation is attained and total output increases.
- c. Another finding was the inability of savings rate to predict total output and gross domestic product growth rate. This might infer that the saving culture in the country is poor or funds saved are not channeled to productive outlets.
- d. The analysis revealed that Nigeria financial system is weak as most of the coefficients of the independent

variables appeared to be weak. This indicates that the financial system is an inhibitor, limiting the effectiveness of transmission policy through interest rate.

- e. Interest rate has not been significant in explaining variation in gross domestic product and growth rate. In all, savings rate and monetary policy rate had an insignificant inverse relationship with gross domestic product growth rate. The model showed that the independent variables explained only 12.6% of the variation in gross domestic product growth rate. This entails that other variables account for the fluctuation of the gross domestic product growth rate.

5. Summary, Conclusion and Recommendations

This section is designed to present the summary of the research, conclusion and offer policy recommendations based on the findings.

Summary of the Study

On the whole the research was aimed at examining the effect of interest rate movement on economic growth in Nigeria and emphasizing on the relevance of the proper management of interest rate to help in the mobilization of resources to enhance economic growth and development.

Various theories of interest rates and economic growth as well as the various eras of interest rate propounded by scholars were examined. The work was anchored on the Keynes liquidity preference interest rate theory and neoclassical theory of economic growth. The research covered the period of 26 years (1986-2012). Data required from the work were sourced from secondary sources.

Two hypotheses were formulated to address the problems. The different hypotheses were tested to show the efficacy of the expected relationship. The statistical tool suitable for analysis was the multiple regressions. Findings from analysis showed that:

- a. Lending rate and monetary policy rate exhibits a positive relationship, when monetary policy rate rises, lending rates moves in sympathy.
- b. The results revealed that the explanatory variables account for changes in total output of the Nigerian economy. Total output relates inversely to interest rate.
- c. A major finding was the inability of savings rate to predict total output and gross domestic growth rate.
- d. The analysis revealed that the Nigeria financial system is weak as most of the coefficients of the independent variables appeared to be weak.
- e. Interest rate has not been significant in explaining variation in gross domestic product growth rate. In all, savings rate and monetary policy rate had an insignificant inverse relationship with gross domestic product growth rate.
- f. The performance of the productive sector in terms of capacity utilization rate has been constrained due to inadequate funding.

CONCLUSION

In line with the objectives of this study, this article has been able to examine the implication of interest rate movement on the over all growth of the economy. The study showed that interest rate has a significant but negative impact on total output and manufacturing capacity utilization. This contradicts the widely established significant/positive relationship between interest rate deregulation and these variables as presented by McKinnon and Shaw financial liberalization hypotheses. In tandem with monetary management, the deregulation of interest rates was to

create an era of interest rate management which will be positive and narrow the gap between savings rate and lending rate in order to make them competitive. However, real interest rates are still being repressed, limiting its role in financial intermediation for investment and economic growth.

However, to achieve balanced and sustainable economy, there must be an increase in the economic growth; there must be an increase in the economy's capacity to produce goods and services. This could be attained by a high level of investment in the productive sector. This calls for investment friendly rates and a certain percentage of savings rates that can impact meaningfully on economic growth.

RECOMMENDATIONS

In view of the result and findings of this study, the following policy recommendations are offered:

- a. Interest rate reforms should be a component of broad packages aimed at facilitating financial intermediation and monetary management as well as enhancing economic growth in developing countries.
- b. A well developed financial market and banks are pre-requisite for the use of interest rate as a major monetary instrument.
- c. There should be a complete deregulation of interest rate which would allow interest rate values to be determined absolutely by market forces. Higher savings rate from liberalization will increase domestic savings in the banking system thereby inducing economic growth.
- d. The relevance of the financial system in catalyzing the development process in the productive sector should be underscored. Banks should be encouraged to direct their lending activities to a productive sector through a provision of friendly investment lending rates.

- e. The monetary authorities should be careful on how they manipulate the monetary policy rate, since it is the major determinant of other rates so as to encourage effective and efficient mobilization of funds in the savings and investment activities of the Nigerian economy.
- f. There should be periodic reforms in the monetary sector in order to manage and control interest rate trend in the economy. Policy makers-monetary committee, regulatory agencies and federal ministry of finance should adopt economic policies that can strengthen and promote allocation of efficient resources to achieve economic growth.
- g. There should be concerted efforts by financial regulators to harmonize fiscal and monetary policies that will expand the economy, direct funding to critical infrastructures, encourage local investment and foreign direct investment and create a robust money market of optimal interest rate.
- h. Monetary authorities should observe the increase and decrease in interest rate and also pay attention to other economic indicators such as money supply, price stability and take appropriate measures towards correcting the imbalances in the economy.

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4

**FOREIGN RESOURCES AND
ECONOMIC GROWTH
AND DEVELOPMENT:
THE NIGERIAN EXPERIENCE.**

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ABSTRACT

This study explores and analyses the input of capital flows and their distributive effect on growth and development. The paper utilized secondary data from the Central Bank (CBN) Statistical Bulletin and Nigerian Bureau of Statistics spanning from 1986 to 2014. The data were analysed using the ADF unit root test, Johansen Cointegration and the Parsimonious Error Correction Model. It was discovered that there exists substantial statistical relationship between the capital flow instruments and economic growth in the short and long run, it was therefore recommended that policy makers should Enhance foreign investor legal protection, and work around reducing the level of private bank lending to help increase the country's available capital to the private sectors as a way of boosting economic activities and reducing the level of crowding-out and channelling the available foreign aid to productive use which would enhance economic growth and development.

Keywords: Foreign Aids, External Lending, Foreign Direct Investment, Gross Domestic Product, Human Development Index.

1 Introduction

John Donne (1953 as cited in Goodreads 2015) asserted that, “No man is an island, entire of itself; every man is a piece of the continent, a part of the main”, Bearing this in mind, The unfledged economic events in Nigerian economy that principally crippled the stride of her nations growth and development has compelled the request for External assistance via Foreign Aids, External Lending and Foreign Direct Investment earnings into the nation from other economic boundaries (Ugwuegbe et al, 2013).

Developing nations like Nigeria are usually branded by a truncated “level of income, high unemployment rate, mediocre industrial capacity utilization, and escalated poverty level in mentioning a few of the countless economic mishaps” battling the nation. In tackling these snags, External aids has been recommended as a genuine option for supplementing the paltry

national possessions and resources of the nation. Unlike other nations that have advanced via foreign aids and assistance and have overtime grown to becoming aid donors the likes of the Asian Tigers i.e. “South Korea, North Korea, China etc., majority of nations inherent Africa like Nigeria have negatively persisted backward” (Fasanya and Onakoya, 2012).

One of the crucial dares towards development battling Nigeria currently is how to lessen its extraordinary poverty level dominant amongst her ever increasing population. At the heart of this negative trial is how the nation will sustainably meet up with the feeding and empower her over 170 million persons. Yet, onlookers’ thoughts diverge as to the efficiency of the nation’s foreign and external aids in fast tracking the growth and development process as to meeting the Millennium Development goal. It is distinguished that a protruding argument in favour of the phenomenon of foreign aid is its tendency to stimulate the decline of poverty. The prominence of the development task of poverty reduction (extreme poverty eradication) and hunger is fittingly established as the pioneering goal of the eight unique Millennium Development Goals (MDGs) (Abiola and Olofin, 2008).

Foreign aid, Private Bank Lending and foreign direct investments are habitually perceived as optimistic forces for development of the LCDs (Less Developed Nations like Nigeria) i.e. a redeployment of key economic resources from the richer to the poorer nations. Because they “Hold the purse string”, loaning and aiding institutions believe that via their pecuniary assistance, they could stimulate a nations action towards economic growth and development (Wilkie, 2008).

Despite the wide-ranging “objectives of foreign aid, economic growth via output growth has always been the germane yardstick utilized in the evaluation of the efficacy of aid, particularly as

greater aid inflows are projected to tip towards a faster growth rate. Conversely, for most Sub-Saharan African nations”, it has arisen that the further the receipt of foreign aid, the greater the level of aid dependent they become (Yakama, 2013).

However, this paper which looks at the Capital Flows In The Form Of Foreign Aids, Private Bank Lending And Direct Foreign Investment Are The Principal Ways In Which Foreign Aid Comes From The Rich Nation To The Poor Nation in Line with the Nigerian Economy.

Principally, Nigeria's delinquency reflected via its underdevelopment has, for an extended period of time, been linked to the dearth of adequate infrastructural facilities, erroneous policy frameworks, inimical social and business environment, technology backwardness, Alarming unemployment rate and its insatiable over-dependency on imported goods and services amongst other restraints (Bashir, 2013). Nigeria and Africa at large have witnessed many civil, Political instability and civil war which impedes her development projects and fuels their unhealthy dependency (Akinola, 2012).

The paper is aimed at evaluating the influence and relationship of Capital Flow Variables (such as Foreign Aid, Foreign Bank Lending and Direct Foreign Investment) on Economic Growth and development in Nigeria. This would provide a unique basis for novel policy implications nationally and internationally and help the International chambers of commerce in implementing policies that are favourable to less developed nations like Nigeria.

The study is structured as follows: The second part of the study evaluates underlying related literature on the influence of Foreign Aids, Private Bank Lending and Direct Foreign Investment on fostered economic output performance and development. “Section 3 presents the employed model of the study. Section 4 mull over the empirical output acquired in the assessment of the formulated

model. Section 5 abridges the main findings, recommends and then concludes”.

2. Theoretical Framework and Literature Review

For purpose of clarity, this section is discussed under the following sub-sections:

Theoretical Framework:

The major theoretical underpinning of this work as pertaining to external assistance and inflows is the Big-Push Theory, which serves as a prime theory towards development.

The Big-Push Theory

The awareness of the Big Push is one of the original theories of economic development, developed by Rosenstein-Rodan (1943) Roughly 72” years ago in the framework of a typical literature on the problem of industrialization of eastern and south-eastern Europe. The main stance of this theory is the rigorous problem of coordination as faced by nations, as against the background of growing earnings, which goes to create the likelihood of compound stabilities. A deprived nation can be wedged in a low-equilibrium poverty trap, public authority involvement can hypothetically resolve the management delinquency, and push the nations performance towards an improved equilibrium allowing a take-off into continual and sustainable growth” (Walton, 2011).

The Big Push impression has reimbursed to the core of development and its underlying policies recently. Easterly (2006) labelled the year 2005 as “the period of the Big Push”. It has done so in deliberations over the “African context: the gripping normative instance to convert development prospects of Africans, has been concomitant with improved accent on the optimistic case for a Big Push. This has been connected to the happening of a foremost extension in aid, particularly in the graft of the Commission for Africa and the Millennium Development Goals;

This case relates to the analytics of the Big Push, the indication and its applicability to a underprivileged African nation. It bonds the issues of growth (from the economic Aggregates) and general equilibrium” (from the units).

Criticism of This theory: The main Pillar of criticism of this study includes and not limited to Inadequacy of Resources, Danger of Inflation, Problem of Co-ordination, Neglect of Agricultural Sector, Neglect of Importance of Techniques, Difficulties in Mixed Economy, Limited Scope for External Economies, Too Much Emphasis on Indivisibilities, Negligible Economies through Investment in Export and Import Substitutes, Neglects the Role of International Trade, Institutional and Administrative Difficulties, Large Increase in Output Results in Low Investment, Other factors Ignored and Not supported by History (Pragyandeepa, 2015).

The Dependency theory

This theory seeks to launch the elements that have driven or accentuated to the development of the underprivileged and immature nations. This theory is established on the postulations that economic possessions drift from a fringe of underprivileged and weak nations to a staple of prosperous nations, thereby elevating the richer nations at the detriment of the poorer nations. It is an essential debate and perspective of the dependency theory that poorer nations are penurious and richer nations are augmented by the way the poorer nations are articulated into the “world system” (Todaro, 2003).

Conceptual literature

Foreign Aids: Aids are used to shield all monetary and pecuniary dealings carried out or guaranteed by the public authority of a nation to another. Certainly, “foreign aid has metamorphosed into a focus and locus amongst the Third World nations. It has attained the status of foreign policy instrument by developed democracies

to strengthen their relationship with, and consequently spread their influence” on, the Third less developed nations as clarified by (Aluko and Arowolo, 2010). According to Olagboyega (2015), “Foreign aid is used to cover all financial transactions made or guaranteed by one public authority to another. Indeed, foreign aid has become a focus and locus in the Third World”.

There exist three fundamental methods toward foreign aid, which are the conditional or unconditional, matching or non-matching and open or closed ended (Tresch, 1981). The conditional foreign aids outline the precise services to which the accepting nation can expend the aid funds on. Other terms and conditions could be encompassed as well. An unconditional aid on the other hand places no limitations on the disbursement of the aid.

The instituting of an aid system is among ideologies behind the Breton Woods system of 1914. The system considers the presence of a loose and unrestricted capital market, which tolerates an unhampered inflow of foreign aid on which principle, the Marshall Aid Assistance of 17.5 billion dollars was granted to Western Europe towards the resuscitating of her crumbling economy as a result of the Second World War. And ever since, the aid system has maintained a sturdy concept of the intercontinental economic system” (Todaro, 1977).

Sources of Foreign Aids

Foreign aids are habitually obtained from some quasi-public authority agencies, multilateral and bi-lateral establishments, private consultants and academic institutions in vague areas. The fauna and magnitude of backing accessible from these establishments diverge conditionally on their professional aptitude (Edward, 1988). This aid could be technical or financial or both.

Aid's holistic influence on sinking poverty and achieving the MDGs

There exists plenteous evidence of aid's input to poverty reduction at the project level. This is majorly fretful with the overall influence of aid towards reducing the poverty level in a nation. The question as to the importance of this ensues.

“The most troubling shortcoming of development aid has been its limited measurable contribution to the reduction – as distinguished from the relief – of extreme poverty, especially in the rural areas.” (OECD 1985)

“General reviews of sectoral aid have pointed to positive outcomes, especially in relation to an expansion in access to services (health, education, agricultural extension, credit), which it is then often simply assumed will lead to improvements in well-being. Where sectoral studies have delved a little deeper, the assessments have tended to be more critical. For example, a recent review of the education sector highlighted the effects that educational aid had on school enrolments, but raised questions both about the quality of that education and the rigour with which educational quality is assessed (Riddell 2012). Likewise, health sector studies have suggested that to the mid-2000s aggregate aid to the sector did not seem to have a substantial effect on mortality rates” (Wilson 2011, pp. 2032-43).

Private Bank Lending

The existence of an association between capital movement and fostered economic performance growth seems undisputable as many scholars have undertaken this necessary matter and clearly confirmed it relationship. “What is debatable is the direction of causality between finance and growth. The direction of causality has been described by Patrick (1966) as supply-leading and demand-following hypothesis. This supposition was bolstered by Mckinnon (1988). When causal association runs from financial

development to growth, it is termed supply-leading because it is believed that the activities of the financial institution upsurges the supply of financial services which creates economic growth. Likewise, when the growth within the economy results in increase in the demand for financial services and this subsequently motivates financial development, then it is termed demand-following hypothesis. There are other scholars who believe that causality runs in both directions” (Oluitan, 2010).

Foreign direct investment (FDI)

The term FDI is used to explain investment in a foreign country where the investors (usually multi-national) maintains control over investment. Director investment typifies the foreign firm establishing the sub-company in question. Therefore, FDI is the extent to which the foreign firm takes control of another firm in another country. Foreign direct investment (FDI) is a vital constituent of foreign-investment. Foreign direct investment is mostly investments “made towards the acquisition of a lasting and controlling interest in an enterprise operating in an economy other than that of the investor, the investor’s tenacity being an effective voice in the management or control of this underlying enterprise” (IMF, 1977)

Implications of Foreign Resources through aids, lending and Foreign Direct Investment

There is a “long tradition of academic studies that have analysed the aggregate relationship between official aid and economic growth that continues to this day, fuelled in part by aid funds that donors have been willing to provide in the hope of finding conclusive evidence to show that aid makes a substantial difference to recipient-country growth paths. These have produced quite different assessments: some suggest that aid has had little to no effect on growth; others that aid has had a positive effect, especially in countries that have pursued a particular set of policies; and a final group of studies has concluded that either the

positive or negative contribution remains unproven” (Riddell, 2014).

Foreign Direct Investment was seen as obstructive, “negative and bringing inappropriate technology to developing countries. More than fifty years on, the radically different view from the beginning of the period has emerged. Foreign Direct Investment is now seen as beneficial and nearly all countries try to provide the welcoming as they could influence the attraction of Foreign Direct Investment utilizing both the general economic policies and fitting specific Foreign Direct Investment policies”.

Conversely, at a similar pace as a nation’s public authority have commenced the realization of affirmative returns from its FDI, a more nuanced assessment on Foreign Direct Investment and economic growth emerges in the “research community which views the impact of FDI on economic growth as not only positive or negative but that the effects depend on the type of and policies. The type and sequencing of general and specific policies in areas covering investment, trade, innovation and human resources are now seen as crucial in affecting the link between FDI and growth while FDI is often superior in terms of capital and technology, spill overs to local economic growth is not automatic. Appropriate polices to benefit from FDI include building up local human resources and technological” corporations (TNCs).

Empirical Literature

There has been wide-ranging work scrutinizing the bearing between Foreign Aids and Fostered national output, Private Bank Lending and Fostered national output and Foreign Investment and Fostered national output/development, although they are rarely combined and are researched independently, below is a series of corresponding works on the components of the paper at hand.

Saqib, Masnoon & Rafique (2013) examined the association between Foreign Investment and Fostered national output utilizing data “from Pakistan that spanned over the period of 1981 to 2010. The result of the study revealed that Pakistan’s economic performance is negatively affected by foreign investment while its domestic investment has benefitted its economy”.

Babalola, Dogon-Daji & Saka (2012) evaluated the association between “exports, Foreign Investment (FDI) and Fostered national output in Nigeria over the period 1960-2009. It was recommended that Nigeria needs reforms/policies that will create enabling environment for FDI inflows and export growth”.

According to Aremu (2005), the dependency theory upholds that, “developing nations are underprivileged because they have been methodically subjugated through: imperial disregard; overbearing dependency on primary goods including exports to developed nations; foreign investors derelictions, predominantly over the transfer of price mechanics; external firm control of crucial economic sectors with crowding-out influence of domestic firms; embedding of unsuitable technology in developing nations; outlining of intercontinental division of labour to the hindrance of developing nations; deterrence of sovereign development strategy shaped round domestic technology and native investors; misrepresentation of the domestic labour force through prejudiced compensation; and dependence on foreign capital in the form of aid that usually intensified corruption and dependency syndrome” (Amin, 1976).

Osinubi and Amaghionyeodiwe (2010) evaluated the “direction and significance of the effect of foreign private investment on Fostered national output in Nigeria. It was found that Foreign Private Investment, Domestic Investment growth and Net Export growth were optimisticly related to Fostered national output in Nigeria”.

Yaqub, Adam & Ayodele (2013) perused the influence of FDI on Fostered national output in Nigeria, utilizing “Vector Auto-regression (VAR) modeling to capture the structure of inter-associations among relevant variables. The empirical evident shows that FDI does not granger cause” Fostered national output.

Dutse (2008) investigated the association between “FDI and technology transfer to foreign subsidiaries and spill over to Nigeria’s domestic firms. The research concludes that FDI can facilitate Fostered national output in Nigeria by generating both technological and efficiency spillovers to local firms, encouraging innovation, allowing technology adoption and development”.

Izuchukwu and Huiping (2011) evaluated the influence of Foreign Investment on Nigerian economy. “The findings of the research reveal that there is a optimistic association between GDP and public authority expenditure, Foreign Investment and labor force between periods of 1980 to 2009”.

Hassen and Anis (2012) examined the influence of “Foreign Investment on the growth of Tunisian economy utilizing recent techniques of time series analysis over the period 1975-2009. The results thus suggest that FDI could help boost the process of long-term” Fostered national output.

Imodu (2012) examined the association between “Foreign Investment (FDI) and the growth if the Nigerian economy over the period of 1980-2009 utilizing the Johansen Cointegration Estimate and Vector Error Correction” methodology the result displayed that Foreign Investment had a substantial influence on real growth in Nigeria.

Awe (2013) evaluated the influence of FDI on the Nigerian Fostered national output over the time period of 1976 – 2006. a negative association was discovered amongst employed variables, as a result of insufficient FDI flow into the Nigerian economy.

Saqib et al (2013) evaluated the influence of FDI on Fostered national output of “Pakistan for the period 1981 to 2010. They used six variables where GDP is specified as dependent variable while FDI, Total debt Service, Gross Domestic Savings, Inflation, as independent variables. The findings indicated a negative and substantial association between FDI and dependent variable GDP. Also Debt”, Inflation and Trade exhibited negative association with GDP.

Wai-Mun et al (2008) carried out “their own study to establish FDI and Fostered national output Association in Malaysia. Employing Augmented Dickey-Fuller (ADF) Unit root tests and Phillips-Peron (PP) test and Ordinary Least Square (OLS) regression analysis, they come up with the results showing that there is a positive and substantial association between FDI and Fostered national output” in the nation.

Antwi et al (2013) evaluated the influence of Foreign Investment on Fostered national output of Ghana. Utilizing the Least Squares (Ordinary) regressions and discovered that Foreign Investment has displays a optimistic substantial role in Fostering national output of Ghana.

Borensztein et al. (1998) also established “that the collaboration of Foreign Investment and human capital had vital influence on economic output, and recommends that the variances in the technological absorptive ability may elucidate the disparity in growth effects” of Foreign Investment athwart nations. They further recommend that nations may requisite at least a starting point of routine of human-capital in understanding optimistic influence of Foreign Investment.

Balasubramanyan *et al.* (1996) reported an affirming association amongst human capital and Foreign Investment. They had previously discovered substantial effects backing the postulations that Foreign Investment is further “vital for Fostered national

output in export-promoting than import-substituting” nations. This infers that the influence of Foreign Investment fluctuates across nations and that trade policy can upset the part of Foreign Investment on output growth. UNCTAD (1999) stand up to the fact that Foreign Investment has both a optimistic or adverse influence on Fostered national output, reliant “on the variables that are inputted alongside the test equation. These factors embrace the initial Gross Domestic Product per-capita, Quality education, domestic-investment ratio, political-instability, terms of trade, black market currency exchange-rate premiums, and the municipals of financial development”.

3 Methodology

For clarity of Purpose, this section is further divided into subsections as presented below:

Data and Variables Description:

In the realization of the study’s specified objectives, annual panel data were utilized. “Secondary data were obtained from various sources, which include; annual reviews from various statistical websites and Central Bank of Nigeria Statistical Bulletin (various issues) and indexmundi.com, The period covered spans” from 1986 to 2014, as presented in table 1 below:

Table 1: Gross Domestic Product (At current Market Price: Real), Human Development Index (HDI), Foreign Aids (FA), Private Bank Lending (PBL) and Foreign Direct Investment (FDI), 1986 - 2014

YEAR	Foreign Aids \$'000,000	Private Bank Lending \$'000,000	ForeignDirect Investment N'Billion	GDP N'Billions	HDI (index)
1986	58.12	395.97	0.736	257.78	0.477
1987	67.62	449.069	2.453	256.00	0.475
1988	118.08	438.874	1.718	275.41	0.473

1989	344	442.04	13.877	295.09	0.471
1990	255	521.20	4.686	328.61	0.469
1991	258	961.36	6.916	328.64	0.466
1992	259	972.01	14.463	337.29	0.479
1993	288	1093.66	29.660	342.54	0.427
1994	190	1289.83	22.200	345.23	0.479
1995	211	1378.78	75.900	352.65	0.449
1996	189	1361.62	111.300	367.22	0.489
1997	200	1334.89	110.500	377.83	0.450
1998	203	1601.43	80.700	388.47	0.415
1999	152	1748.53	92.800	393.11	0.468
2000	174	1479.24	116.000	412.33	0.473
2001	176	1358.91	132.400	431.78	0.499
2002	298	1494.84	225.200	451.79	0.475
2003	308	15514.45	258.400	495.01	0.455
2004	577	17560.27	248.200	527.58	0.540
2005	6,409	10799.76	654.200	561.93	0.466
2006	11,428	2015.36	624.500	595.82	0.444
2007	1,956	2554.87	759.400	634.25	0.448
2008	1,290	2977.08	971.500	672.20	0.483
2009	1,657	3499.55	1,273.800	718.98	0.457
2010	2,062	4341.67	905.700	776.33	0.492
2011	1,769	5207.50	1,360.300	834.00	0.496
2012	1,916	5993.04	1,113.500	888.89	0.500
2013	2,529	7023.39	875.100	950.11	0.504
2014	3,143	7822.74	738.200	1,009.34	0.503

Source: Central Bank Statistical Bulletin (Various Issues), The Nigerian Stock Exchange, Fact Book (Various Issues) and the National Bureau of Statistics (Various Issues) and Index Mundi (online).

Model Specification

In order to capture the interrelationship of the various underlying variables such as Foreign Aids, Private Bank Lending and Foreign Investment on the Economic Growth and Development of Nigeria proxied by GDP and HDI respectively, the following model were thus specified:

$$GDP = f(FA, PBL, FDI) \text{ ----- (1)}$$

$$HDI = f(FA, PBL, FDI) \text{ ----- (2)}$$

The above model was modified and estimated in a econometric form:

$$\text{LnGDP} = \beta_0 + \text{Ln}\beta_1\text{FA} + \text{Ln}\beta_2\text{PBL} + \text{Ln}\beta_3\text{FDI} + \mu \text{ ----- (3)}$$

$$\text{LnHDI} = \beta_0 + \text{Ln}\beta_1\text{FA} + \text{Ln}\beta_2\text{PBL} + \text{Ln}\beta_3\text{FDI} + \mu \text{ ----- (4)}$$

Where:

Dependent Variables

- GDP = Gross Domestic Product
- HDI = Human Development Index

Independent Variables.

- FA = Foreign Aids (Official Development Assistance)
- PBL = Private Bank Lending
- FDI = Foreign Direct Investment
- β_0 = Constant
- $\beta_1, \beta_2, \beta_3$ = Coefficient
- μ = Error term/Stochastic variable
- Ln = Log Linear

Operational Measures of Variables

Gross Domestic Product: is “one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific

time period; you can think of it as the size of the economy”. Measured in Billions of Naira.

Human Development Index: This is “a composite statistic of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development”. Measured as a unit.

Foreign Aid : These are “the financial measurement of money, food, or other resources given or lent by one country to another and attracts no interest”. Measured in Millions of Naira.

Private Bank Lending : This is “the aggregate amount lent by surplus nations to Nigeria at a given rate of interest”, measured in Billions of Naira.

Direct Foreign Investment: is “a controlling ownership in a business enterprise in one country like Nigeria by an entity based in another country”. Measured in Billions of Naira.

Techniques of Data Analysis

Multiple Regression (Ordinary Least Square):

The standard regression outputs are estimated in two sections which includes the Coefficient Results and the Summary Statistics:

Standard Error of the Regression (S.E. Of Regression)

The standard error is a precipitate “measure based on the predictable variance of the error term”.

Durbin-Watson Statistic

The Durbin-Watson statistic accesses the “auto correlation in the error term. In line with a rule of thumb, if the Durbin Watson is less than 2, there is an evidence of positive auto or serial correlation”.

F-Statistic

The *F-statistic*: is a overall test of a study underlying hypotheses of the coefficients slop inherent a regression to determine if it equates to zero. If the F-statistic is greater or higher than the critical level, this signifies the probability of the coefficients to be non-zero.

Decision rule 1: If $p\text{-value}(s) < \alpha$, reject H_0 . If $p\text{-value}(s) > \alpha$, do not reject H_0 .

Decision Rule 2: instructions: Peruse “a critical value (F^*) and link it to your test statistic. Critical values (F^*) are the F scores Tabulated in correlated with the level of significance” (α).

Unit Root Test

The stationarity of series utilized for this study was “determined with the estimation of unit root. Dickey Fuller (DF) unit root test might be estimated from the following forms of equations. Based on the following regression equation”:

$$\Delta Y_t = \alpha + \beta T + \delta Y_{t-1} + \gamma_i \Delta Y_{t-i} + \varepsilon_t$$

Hypothesis:

H_0 : $\square > 0$ (there is unit root in the series).

H_1 : $\square \square < 0$ (the series are stationary)

Decision rule: Reject H_0 if test statistic is less than critical values, otherwise do not reject.” (Haris and Sollis, 2004; Elliott et al, 1996).

Co-integration

The study applied Johansen Co-integration Rank Test utilized in ascertaining and determining the co-integration rank of variables as a prerequisite or condition to model with Vector Error Correction Model is that there must exist a co-integration relationship (Adbullahi et al, 2012) Cointegration test is utilized “to ascertain the presence of potential long run equilibrium

Decision Rule: If $p\text{-value}(s) < \alpha$, reject H_0 . If $p\text{-value}(s) > \alpha$, do not reject H_0 .

4 Data Analysis and Presentation of Results

This section intends to evaluate the data set generated in previous section it will entail the unit root test utilizing the Augmented Dickey Fuller (ADF) test “to evaluate the stationarity of the variables employed for the study”. The result of the unit root test and other results are respectively presented in tables 2 to 5 below.

Table 2. Result of Stationarity (Unit Root) Tests:

Variable	ADF t-statistics	Critical Value 5%			Order of Integration	Prob.
		1%	5%	10%		
D(LOG(GDP))	-3.920794	-3.699871	-3.699871	-3.699871	I(1)	0.0059
D(LOG(HDI))	-8.664459	-3.699871	-3.699871	-3.699871	I(1)	0.0000
D(LOG(FA))	-4.995951	-3.711457	-3.711457	-3.711457	I(1)	0.0004
D(LOG(PBL))	-5.181150	-3.724070	-3.724070	-3.724070	I(1)	0.0003
D(LOG(FDI))	-8.637940	-3.699871	-3.699871	-3.699871	I(1)	0.0000

Using both 1% and 5% Substantial Level.

Source: Eview 8 Output (Authors Computation and Compilation)

Note: D(LOG(GDP)), D(LOG(HDI)), D(LOG(FA)), D(LOG(PBL)) and D(LOG(FDI)) represents the differenced logged value of The Gross Domestic Product, Human Development Index, Foreign Aid, Private Bank Lending and Direct Investments respectively.

The above Output results shows that all variables were integrated at the order of 1 i.e. first order, which means they were all “differentiated at the first level to be stationary, Meanwhile having established stationarity, the author moved on to conduct co-integration analysis in other to determine if there is a long run relationship between the variables” under consideration.

Table 3. Result of Johansen Unrestricted Co-integration Rank Test (Trace)

Obs	Series	Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	P 0.05 Critical Value	Prob.**
29	D(LOG(GDP)), D(LOG(HDI)), D(LOG(FA)), D(LOG(PBL)), D(LOG(FDI))	None *	0.692900	81.57572	69.81889	0.0043
		At most 1 *	0.603225	49.69998	47.85613	0.0332
		At most 2	0.425543	24.74157	29.79707	0.1709
		At most 3	0.279600	9.774660	15.49471	0.2985
		At most 4	0.033501	0.920033	3.841466	0.3375

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

** denotes rejection of the hypothesis at the 0.05 level*

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

Source: Eview 8 Output (Authors Computation)

The outcome of the pairwise johansen co-integration test shows “the existence of at most 2 co-integrating equation in the model. The existences of co-integration suggest that there is long run relationship between the employed variables under the Trace statistics consideration” although at the probability level of 0.0043 and 0.0332 respectively. Having established con-integration the existence of a long run relationship amongst the variables, the Author move to the error correction Model followed closely by the Regression model. To empirically verify the study hypotheses, we employed various statistical techniques. This segment presents the empirical results on The Role of Foreign Resources which entails foreign Aid, Private bank Lending and

Direct Foreign Investment in Nigeria's Economic Growth and Development.

Table 4 Error Correction Model (Gross Domestic Product)*Dependent Variable: LOG(GDP)**Method: Least Squares**Date: 12/16/15 Time: 17:10**Sample (adjusted): 1987 2014**Included observations: 28 after adjustments*

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
<i>C</i>	<i>4.706272</i>	<i>0.205028</i>	<i>22.95431</i>	<i>0.0000</i>
	<i>0.105661</i>	<i>0.023403</i>	<i>4.514743</i>	<i>0.0002</i>
<i>LOG(PBL)</i>	<i>0.034016</i>	<i>0.032289</i>	<i>1.053479</i>	<i>0.3031</i>
<i>LOG(FDI)</i>	<i>0.113086</i>	<i>0.019985</i>	<i>5.658425</i>	<i>0.0000</i>
<i>ECM(-1)</i>	<i>0.799756</i>	<i>0.149540</i>	<i>5.348099</i>	<i>0.0000</i>
<i>R-squared</i>	<i>0.942098</i>	<i>Mean dependent var</i>	<i>6.159523</i>	
<i>Adjusted R-squared</i>	<i>0.932028</i>	<i>S.D. dependent var</i>	<i>0.398421</i>	
<i>S.E. of regression</i>	<i>0.103874</i>	<i>Akaike info criterion</i>	<i>-1.530849</i>	
<i>Sum squared resid</i>	<i>0.248164</i>	<i>Schwarz criterion</i>	<i>-1.292955</i>	
<i>Log likelihood</i>	<i>26.43188</i>	<i>Hannan-Quinn criter.</i>	<i>-1.458122</i>	
<i>F-statistic</i>	<i>93.55608</i>	<i>Durbin-Watson stat</i>	<i>2.581345</i>	
<i>Prob(F-statistic)</i>	<i>0.000000</i>			

Source: *E-view 8 Output (Authors Computation)*

The results attained from the above parsimonious estimate designates that the “overall coefficient of determination (R^2) shows that the predictor variables” account for 94.2 percent of the variation of the criterion variable (Gross Domestic Product at constant price), while the remaining 5.9 percent are accounted for by other non-observed variables i.e. stochastic variable.

The employed variables all have positive coefficients of approximately 0.105661 for Foreign Aids, 0.034016 for Bank Lending and credit and 0.113086 for Foreign direct investment which shows a positive relationship between all independent variables and Gross Domestic Product.

The Durbin Watson (D.W) statistics of approximately 2.581345 shows a substantial level of serial correlation in the model specification.

All employed variable shows a statistical t-test statistics significance of employed predictors to the criterion with the exception of Private Bank Lending, which could be as a result of mismanagement, embezzlement and structure of funding of various productive sectors.

Judging by the F-test score of 93.55608, the null hypothesis can thus be discarded while accepting the alternate form, which denotes that there is thus a substantial impact of Foreign Aid, Private Bank Lending and Foreign Direct Investment on Economic Growth in Nigeria (GDP).

The error correction model output of 0.799756 shows that all explanatory variable jointly explains 94.2 percent of variations in Nigeria's Gross Domestic Product, although the ECM did not display the expected negative sign but its associated f-statistics value of 93.56 at a probability level of 0.000, the value of the ECM shows that about 0.79976 i.e. 79.98 percent of the disequilibrium in Nigeria's GDP is offset by short-run adjustments in the predictor variables yearly. The probability value of 0.0000 shows a substantial influence of the model.

Table 5. Dynamic Model*Dependent Variable: LOG(HDI)**Method: Least Squares*

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
<i>C</i>	-0.939464	0.105821	-8.877857	0.0000
<i>LOG(FA)</i>	-0.001672	0.012375	-0.135098	0.8937
<i>LOG(PBL)</i>	0.029711	0.016519	1.798565	0.0852
<i>LOG(FDI)</i>	-0.005843	0.010356	-0.564210	0.5781
<i>ECM(-1)</i>	-0.055963	0.214695	-0.260664	0.7967
<i>R-squared</i>	0.164208			
<i>Adjusted R-squared</i>	0.018852			
<i>S.E. of regression</i>	0.053823			
<i>Sum squared resid</i>	0.066629			
<i>Log likelihood</i>	44.84128			
<i>F-statistic</i>	1.129699	<i>Durbin-Watson stat</i>		1.975646
<i>Prob(F-statistic)</i>	0.367102			

*Source: E-view 8 Output (Authors Computation)***(Human Development Index)**

The results obtained from the dynamic model for Human development index was poor as presented in the index which indicated that the overall coefficient of determination (R^2) shows that the predictor variables account for barely 2 percent of the variation of the criterion variable (Gross Domestic Product at constant price), while the remaining approximately 98 percent are accounted for by other non-observed variables i.e. stochastic variable. Going by this, we therefore aborted this estimation as employed variables and model was unsuccessful.

Table 6. Granger Causality Test Output (Pairwise).*Pairwise Granger Causality Tests*

Date: 12/16/15 Time: 17:45

Sample: 1986 2014

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LOG(HDI) does not Granger Cause LOG(GDP)	27	1.99170	0.3869
LOG(GDP) does not Granger Cause LOG(HDI)		2.41035	0.1131
LOG(FA) does not Granger Cause LOG(GDP)	27	1.48778	0.2477
LOG(GDP) does not Granger Cause LOG(FA)		4.74421	0.0194
LOG(PBL) does not Granger Cause LOG(GDP)	27	0.04541	0.9557
LOG(GDP) does not Granger Cause LOG(PBL)		2.86911	0.0781
LOG(FDI) does not Granger Cause LOG(GDP)	27	7.08793	0.0042
LOG(GDP) does not Granger Cause LOG(FDI)		0.14103	0.8692
LOG(FA) does not Granger Cause LOG(HDI)	27	1.10486	0.3489
LOG(HDI) does not Granger Cause LOG(FA)		9.46918	0.0011
LOG(PBL) does not Granger Cause LOG(HDI)	27	5.02376	0.0082
LOG(HDI) does not Granger Cause LOG(PBL)		0.04878	0.9525
LOG(FDI) does not Granger Cause LOG(HDI)	27	0.74455	0.4865
LOG(HDI) does not Granger Cause LOG(FDI)		1.36834	0.2754
LOG(PBL) does not Granger Cause LOG(FA)	27	9.61824	0.0010
LOG(FA) does not Granger Cause LOG(PBL)		1.05069	0.3666
LOG(FDI) does not Granger Cause LOG(FA)	27	1.69233	0.2072
LOG(FA) does not Granger Cause LOG(FDI)		0.05547	0.9462
LOG(FDI) does not Granger Cause LOG(PBL)	27	4.62760	0.0210
LOG(PBL) does not Granger Cause LOG(FDI)		1.49698	0.2457

Source: E-view 8 Output (Authors Computation)

With an exception to Gross Domestic Product and Foreign Aid and Gross Domestic Product and Foreign Direct Investment and Gross Domestic Product showing unidirectional relationships which appear to be Demand leading for the former and demand following for the latter and Human Development index and Private Bank Lending exhibited a unidirectional relationship, All other variables posses no substantial Directional movement.

1Conclusion and Recommendations

Conclusion

This paper determines the impact of Capital Flows In The Form Of Foreign Aids, Private Bank Lending And Direct Foreign Investment Are The Principal Ways In Which Foreign Aid Comes From The Rich Nation To The Poor Nation (The Role Of Foreign Resources In Nigeria's Economic Growth And Development) in the long and short run over the time period of 1986 to 2014, it was discovered that there exist a statistically substantial relationship between employed variables showing that the capital flow instruments are actually achieving their intermediate functions as to transfer resources from the surplus economies to the deficit economy in the short and long run, although the association with the long run relationship toward development was hindered by the unsuccessful error correction model of the study.

Recommendations

Based on the findings of this study, Policy makers and the monetary authorities should see to proper management and tackle selfish fund appropriation practices in the nation as the Private Bank Lending of the nation hasn't still been utilized toward fostering economic growth in the nation, they should also develop policies and incentives (programs) aimed at encouraging investors into the nation. The delinquency caused by insecurity in the nation should be curtailed head-on by policy makers and key players in the nation's foreign affairs to guarantee a continuity if favour in global fund market. Also, It is paramount that an investment friendly

environment should be created: towards the enhancement of “foreign investor legal protection, Rationalization procedures for business visas and entry of external workers, Restructuring land policy and administration, Fast-moving up and deepening tax reforms, should be fashioned by policy makers so as to increase the inflow of Foreign Direct Investment into the economy”, and work around reducing the level of private bank lending to help increase the country’s available capital to the private sectors as a way of boosting economic activities and reducing the level of crowding-out and channelling the available foreign aid to productive use which should be paramount to the MDGs, strengthen the exchange rate and to foster economic growth and development and ensure that foreign resources achieve their intended aims.

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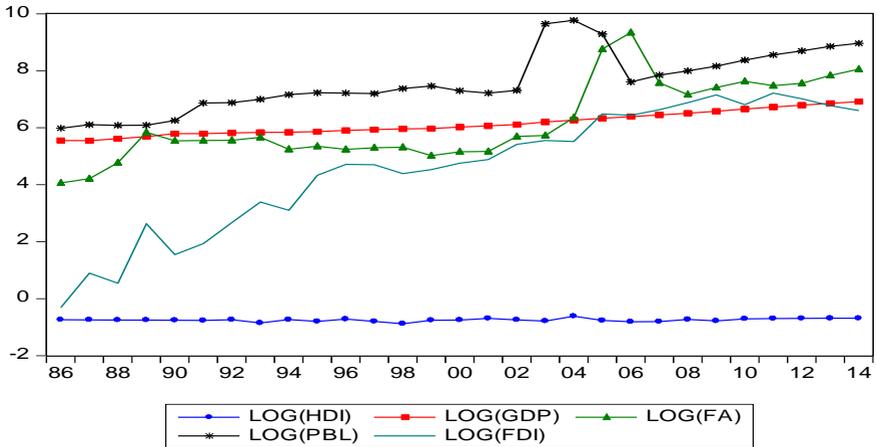
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Appendix

	<i>HDI</i>	<i>GDP</i>	<i>FA</i>	<i>PBL</i>	<i>FDI</i>
<i>HDI</i>	1.000000	0.400206	-0.080494	0.425289	0.261071
<i>GDP</i>	0.400206	1.000000	0.437021	0.463754	0.896043
<i>FA</i>	-0.080494	0.437021	1.000000	0.205531	0.452896
<i>PBL</i>	0.425289	0.463754	0.205531	1.000000	0.339672
<i>FDI</i>	0.261071	0.896043	0.452896	0.339672	1.000000

Source: E-view 8 Output (Authors Computation)

Graphical Illustration



Source: E-view 8 Output

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1

**GOVERNMENT HEALTH
EXPENDITURE AND
LIFE EXPECTANCY
IN NIGERIA**

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Abstract

This study empirically examines the impact of government health expenditure on life expectancy in Nigeria. It used annual time series data collected from Central Bank of Nigeria (CBN) Publications and covering the period 1990 to 2013.

A dynamic framework involving unit root testing, cointegration and error correction model for analysis and test of hypotheses was adopted. The findings reveal that government expenditure on health and per capita income (though positive) are not significant in explaining life expectancy in Nigeria. Government expenditure on defence – a measure of security is found to have a positive and significant impact on life expectancy, while the impact of malaria case is negative and significant at 1%. Based on these empirical findings, we recommend that government and policy makers should increase health expenditure along with considerable redirection of resources to critical areas of needs that will enhance life expectancy. Complementary sound and stable macroeconomic policy that will increase per capita income and other welfare-enhancing policies are critical in this direction.

Keywords: Life Expectancy, Government Expenditure, Cointegration, Error Correction Model.

1. Introduction

Healthcare is arguably one of the most severe development issues facing humanity today. Countries all around the world are crippled by the outbreak of infectious disease and other preventable health issues. They are unable to focus their attention fully on other development issues such as education and economic sustainability because they have to first address the more pressing, immediate needs of their citizens. In Nigeria, malaria remains a major drain on available resources and citizens are still apprehensive of the outbreak of diseases like Bird Flu, Ebola Virus Disease and Lassa fever among others. Sufferings from ill-health, especially the physical pain, psychological and financial trauma could have dire consequences on life expectancy of a country, which is the average life-span of the citizens over time.

Global progress and the pursuit of international development simply won't be possible without improved access to and availability of healthcare and Nigeria is not an exception. Hence the importance of public expenditures on health, especially in low income countries cannot be over-emphasized. Government expenditures on health can be seen as the use of public funds to pay for commodities, buildings, equipment, salaries or services (including training, supervision, quality control, monitoring and surveillance etc.) in the health sector.

There is an array of studies on the relationship between government expenditure and health outcome. This include Oduola (1998); Gupta, Kaufmann, Kraay and Mastruzzi (2004); Ricci and Zachariad (2006); McCarthy and Wolf (2001); Glewwe and Kremer (2006) etc. Most of these studies did not focus on Nigeria. Also, the extant literature on the impact of public health expenditure on national health outcomes, such as life expectancy do not agree whether increasing health spending is a direct, inverse or non-significant factor (Kim & Lane, 2013). The motivation for this study is on the need to fill this void in knowledge, and very importantly, shed some light on the nature of the relationship between public health expenditure and life expectancy in Nigeria. In order to proceed, we address our minds to the following questions;

- (i) What is the relationship between public expenditure and life expectancy in Nigeria?
- (ii) What is the impact of public expenditure on life expectancy in Nigeria?

The objectives of the study include;

- (i) to examine the relationship between public expenditure and life expectancy in Nigeria;

(ii) to investigate the impact of public expenditure on life expectancy in Nigeria. From the foregoing, we provide the following tentative answers to our research questions thus; (i) there is no significant relationship between public expenditure and life expectancy in Nigeria. (ii) Public expenditure does not have any significant impact on life expectancy in Nigeria. The scope of the study is delimited to the period between 1990 and 2013, due to availability of data. The rest of the study is structured as follows; in section two, we present our review of related literature. In section three, we discuss the methodology. In section four, we present the analysis, empirical results, interpretation and findings, while section five concludes the study.

2. Literature Review

Studies on the relationship between government expenditure and health have mixed findings, but leans toward positive outcomes from increased spending. Bokhari, Gai and Gottrel (2007) found increased public spending contributes to positive outcomes in under – five and maternal mortality. Elola, Daponte and Navarro (1995) found high levels of both country’s GDP and health care expenditure, were associated with higher life expectancy for females and inversely associated with potential years of life lost to females in Western Europe. Despande, Kumar and Ramaswami (2010) examine the relationship between healthcare expenditure and national life expectancy in order to gain perspective on how to efficiently increase the quality of health in a state, using data from 181 World Health Organisation Countries. In addition to healthcare expenditure, they also used percent government expenditure, concentration of doctors in an area, and literacy rate as independent variables. The data shows that there is no significant correlation between healthcare spending and life expectancy in developing countries, but it does exist in developed countries.

Rajkuman and Swaroop (2007) examine data from 1990, 1997, and 2003 for effects of public health spending on the mortality of children under five, using corruption and bureaucratic quality as indicators of the level of governance.

Their findings reveal that in countries where there is good governance, an increase in public health spending by 1 percentage point leads to an increase in the under-5 mortality rate by .32%. This effect decreases to .20% in countries with average governance and has no effect in countries with weak governance. Chung and Muntaner (2006) also measured a number of variables, including political environment (ideology and participation), welfare state policies (social security transfer and percentage of population under public medical coverage), health care system, income inequality, gross national product, and the Gini coefficient, and their effect on infant mortality rate, under 5 mortality rate, and low birth weight rate. The Gini coefficient was not significantly associated with infant mortality or low birth weight. This suggests that income inequality is not itself causing bad health outcomes, but is a result of something else that directly impacts population health. Provision of public health services was the only variable that showed a consistent relationship with infant mortality. In a study with conflicting findings, Berger and Messer (2002) considered health care inputs, health behaviours, age, education, health care expenditures, Gini coefficient, public share of health expenditures, and population covered by public sources for inpatient and outpatient services in Organisation for Economic Co-operation and Development Countries (OECD). They found that “increases in the share of health expenditures that are publicly financed are significantly associated with higher mortality rates. This may be because of a less productive mix of services or less efficient service provision. However, increases in insurance coverage are correlated with lower mortality rates. Kim and Lane (2013) empirically analyzed the relationship between public health expenditure and national health outcomes among

developed countries. The data was collected from 17 OECD countries between 1973 and 2000. Two public health outcome indicators, infant mortality rate and life expectancy at birth, were used as dependent variables. To analyze cross-country panel data, they used a mixed-effect model. A statistically significant association was found between government health expenditure and public health outcomes. Particularly, the findings showed a negative relationship between government health expenditure and infant mortality rate, and a positive relationship between government health expenditure and life expectancy at birth. The results suggest that higher government spending on medical goods and services can be shown to provide better overall health results for individuals. Yaqub, Ojapinwa and Yussuff (2012) investigate how the effectiveness of public health expenditure is affected by governance in Nigeria. Data on public health expenditure and governance variable captured by the corruption perception index were regressed on infant mortality, under-five mortality and life expectancy, using both the ordinary least squares and the two-stage least squares. The result obtained showed that public health expenditure has negative effect on infant mortality and under-5 mortalities when the governance indicators are included. In this study, we introduce malaria case as a key factor that explain life expectancy in Nigeria and we also adopt the error correction mechanism, to obtain the speed of adjustment of short run deviations in the integrated time series variables, *inter alia*.

3. Methodology

In the methodology for this study, three processes of are involved. The first stage is the preliminary unit root test which is conducted on the time series variables, in order to determine their stationarity. This is because the regression of a non-stationary series on another may produce spurious results (Engle and Granger, 1987). Next, we carry out the cointegration test to determine if a long-run relationship exists between life expectancy and its determinants. The associated error correction

technique is subsequently specified and used to analyze the short-run dynamics among the variables.

The model estimated for this study is anchored on Rajkumar and Swaroop (2009) who model outcome of public health expenditure as;

$$outcome = GDPP^\alpha \times \left(\frac{Pubexp}{GDP}\right)^\beta \quad (3.1)$$

Where $\alpha > 0, \beta \geq 0$ and GDPP is per capita income, Pubexp is public expenditure on health, GDP is gross domestic product and outcome is indicators of health status, such as life expectancy, infant mortality rates etc. Equation 3.1 implies that outcome (i.e. life expectancy) does the following: (a) improves with an increase in per capita income; (b) improves (or not worsens) if an increased proportion of the country's resources are spending on health care.

Given the nature of this study, we adapt the above model structurally as;

$$LEXP = f(GREXH, PCI, GEXPDEF \text{ and } MCASE) \quad (3.2)$$

Where

LEXP is life expectancy, GREXH is government recurrent expenditure on health, PCI is per capita income, GEXPDEF is government expenditure on defence and MCASE is malaria case in Nigeria.

Following the ADF and Johansen Cointegration procedures, we respecify the above model in its empirical error correction form as

$$\Delta LEXP_t = \alpha_0 + \sum_{i=1}^n \beta \Delta Z_{t-i} + \omega ECM(-1) + \varepsilon_t \tag{3.3}$$

Where Δ is difference operator, t is time trend, α_0 is the mean or autonomous term, β is the coefficient of the explanatory variables, Z is the vector of the explanatory variables as contained in equation (3.2), ω is coefficient of the error correction mechanism (ECM) and ε is a white noise stochastic term. Based on a priori expectation, we have $\alpha_0 > 0$ and $\beta > 0$.

4. Analysis and Empirical Results

4.1 Unit Root Analysis

Generally, unit root test involves the test of stationary for variables used in regression analysis. The importance of stationarity of time series used in regression borders on the fact that a non-stationary time series is not possible to generalize to other time periods apart from the present. This makes forecasting based on such time series to be of little practical value. Moreover, regression of a non-stationary time series on another non-stationary time series may produce spurious and inconsistent parameter estimates (Engle and Granger, 1987).

The Augmented dickey Fuller (ADF) test is employed in order to analyze unit roots in this study. The results are presented in levels and first difference in table 1.

Table 1. Unit Root Test for Variables in levels and First Difference

Variable	ADF Statistic (in	ADF Test Statistic (in	Order of Integration First	Remark
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	Levels)	Difference)		
ΔLEXP	-1.103	-5.169**	I(1)	Stationary
ΔGREXH	-1.569	-4.137*	I(1)	“
ΔPCI	-0.972	-6.015**	I(1)	“
ΔGEXP DEF	-0.1341	-4.211**	I(1)	“
ΔMCASE	-1.210	-3.790*	I(1)	“

***(**)** denotes significance at 5% (1%) level

Source: Authors' computation, 2016

The unit root test results indicate for all the variables, the null hypothesis of no unit root cannot be rejected, implying that the variables are non-stationary at levels. We thereafter take the first differences of the respective variables and perform the unit root test on each of the resultant time series variables. The rationale behind this is that Box and Jenkins (1976) have argued that differencing non-stationary time series variables would make them attain stationarity. Thus, after taking the first differences, the variables became stationary. This implies that the variables are difference-stationary. They are thus integrated of order one (i.e. I [1]).

4.2 Cointegration Test

Having established that the series in the analysis are not stationary in their levels and are characterized by a unit root process, we move on to determine if they are cointegrated. The cointegration test is based on the argument that time series have a unit root and a relationship exist between a linear combination of such series. The Engle and Granger (1987) two stage method is employed in the cointegration test. The result of the Engle and Granger cointegration test is reported in table 2. In the table, the ADF test statistic value of (-6.4491) is greater than the 95percent critical ADF value of -4.306 (in absolute values). This clearly indicates that the residuals are stationary. Indeed, there is cointegration between life expectancy, government expenditure on health and other explanatory variables. Thus, a long-run equilibrium relationship exists between the dependent variable (life expectancy) and its determinants in Nigeria.

Table 2. Results of Engle and Granger Residual Based Cointegration Test

Variable	ADF Test Statistic	95% Critical ADF Value	Remarks
Residual	-6.4491	-4.306	Stationary

Source: Author’s Computation, 2016

4.3 The Short-Run Dynamic Model

The short-run dynamics of the behaviour of life expectancy (LEXP) due to short term movements in government expenditure and the explanatory variables is captured within an error correction model (ECM). We now turn to this analysis. The autoregressive distributed lags (ARDL) approach is used for the ECM. The error correction representations for the selected ARDL model is presented in table 3. The R-Bar squared criterion was used for the selection of the parsimonious equation.

The error correction mechanism result for the life expectancy model, as reported in Table 3 below, indicates that the model has impressive diagnostic statistics. The goodness of fit of the model

is relatively high. The adjusted R-squared value of 0.753 indicates that over 75 percent of the systematic variation in life expectancy is explained by the explanatory variables and the ECM term. The overall performance of the model is determined by observing the F-statistic in the model. The F-statistic value of 96.17 is very high and easily passes the significance test at the conservative 1 percent level. Thus, we cannot reject the hypothesis of a significant linear relationship between life expectancy and all the independent variables combined in the short run.

Table 3. The Short-run Dynamic Model Result

<i>Dependent Variable: LEXP</i>		
Variable	Coefficient	t-ratio
C	0.015	1.431
ΔLGREXH	0.117	1.540
ΔPCI	0.216	1.219
ΔGEXPDEF	0.189	2.671
ΔLMCASE	-0.109	-3.921
ECM(-1)	-0.712	-2.984
R²=0.779; Adjusted R²=0.753	F-Value=96.17	DW Statistic=1.64

Source: Authors' Computation, 2016

The particular contribution of each variable to short term movements in life expectancy is determined by observing the individual coefficients of the explanatory variables. A close investigation of the individual coefficients of the variables reveals that all the coefficients of the explanatory variable have the correct sign in line with economic theory.

In terms of statistical significance of the coefficients, it can be observed that government recurrent expenditure (our main variable of interest) though positive is not significant at the five percent level. This insignificance is out rightly attributable to down-playing factors such as low health expenditure in the past, misuse of such funds even when allocated, misplacement of priorities in the health sector that ought to stimulate life expectancy and misappropriation of funds by government officials. The coefficient of per capita income- a measure of standard of living is positive and also not significant at the five percent level. This invariably is due to the low standard of living in Nigeria- a factor which results to poor feeding, reflected in low calorie intake, sometimes malnutrition, poor health and shelter, which combine to reduce life expectancy. Since the t-value of both coefficients of health expenditure and per capita income coefficient exceeds unity, we may conclude that both contribute positively to life expectancy but the effects are rather weak. The coefficient of government expenditure on defence- a measure of security is positive and significant at the five percent level -an indication that security, i.e. a violence and crime-free life is a critical determinant of life expectancy in Nigeria, while the coefficient of malaria case- a measure of disease prevalence is negative and significant at the one percent level. This shows that disease proliferation has an outright destabilizing effect on life expectancy in Nigeria. In particular, the high significance of the coefficient of malaria is an indication that malaria is one of the prevalent illnesses in Nigeria, with its dampening effect on life

expectancy. The error correction term has the correct negative sign and also passes the significance test at the 5 percent level. Thus, any short term disequilibrium (imbalance) in the system will be restored in the long run. The very high value of the error correction term (-0.72) means that adjustment to equilibrium in the long run is rather fast and rapid. Indeed, over 72 percent of the long run contemporaneous adjustment to equilibrium is completed within the first year. The DW statistic value of 1.64 indicates the absence of autocorrelation in the model. The implication of this is that the short-run estimates are reliable for structural analysis and policy directions.

5. Conclusion and Policy Recommendations

This paper sets out to empirically examine the impact of health expenditure on life expectancy in Nigeria. This is against the backdrop of the critical role of health expenditure on life expectancy in Nigeria. Using annual time series data covering the period 1990-2013 and a dynamic framework involving unit root testing, cointegration and error correction model, the empirical results reveal that government expenditure on health and per capita (though positive) are not significant in explaining life expectancy in Nigeria. Government expenditure on defence – a measure of security is found to have a positive and significant impact on life expectancy, while the impact of malaria case is negative and significant at the one percent level.

Based on these empirical findings, we recommend government and policy makers to increase health expenditure along with considerable redirection of resources to critical areas of needs that will enhance life expectancy. Complementary sound and stable macroeconomic that will increase per capita income and other welfare-enhancing policies are critical in this direction.

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**CREATING AN
ENTREPRENEURIAL NIGERIA:**

**LEARNING FROM THE
EXPERIENCES OF SINGAPORE
AND SOUTH KOREA**

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Abstract

This paper makes a case for Nigeria to be an entrepreneurial country. That is the surest path to becoming an advanced economy. Not being an entrepreneurial, the article highlighted her features, particularly economic indices which clearly showed that this extremely blessed country (in terms of natural and human resources) is an underdeveloped, or, at best, a developing nation. It further x-rayed the features of entrepreneurial nations, including, the two out of the four Asian Tigers-Singapore and South Korea. They are all developed economically and technologically. In other words, Nigeria has a lot of lessons to learn from these two countries. Given this ugly economic scenario, the paper made far-reaching recommendations, which if religiously implemented will make this giant of Africa an entrepreneurial and consequently, advanced nation.

Keywords: Underdevelopment, Entrepreneurship, Third World, advanced nations, Generational Enterprises, Multinational Corporations.

Introduction

An entrepreneurial-oriented nation leads to economic development or advancement. And virtually all countries that have deliberately gone entrepreneurial are developed economically and technologically. They include: (1) the TRIAD nations- USA, Western Europe (Austria, Belgium, France, Germany, Liechtenstein, Luxembourg, Monaco, Netherlands, Switzerland) and Japan (2) When Canada is added to the triad nations, we have the QUAD nations; (3) the Nordic Region- Norway, Sweden and Finland; (4) Asian Tigers- Hong Kong, Singapore, South Korea and Taiwan; and (5) BRICS nations- Brazil, Russia, India, China and South Africa. They all made the list of the forty biggest economies of the world in 2014 and 2015.

Currently, Nigeria is described as underdeveloped or developing. She has low per capita income and life expectancy. Her businesses have high mortality rate and operating under very unfriendly economic environments. Consequently, Nigerian firms cannot compete regionally, internationally or globally. Obviously, a developing country is not an entrepreneurial nation. Such a nation is not harnessing the full economic potentials of her citizens and firms. Such a nation can also not be a major global economic player.

There are two nations, through deliberate and concrete investment and economic policies are presently highly entrepreneurial, developed and global players. They are Singapore and South Korea. They are two out of the four Asian Tigers. The term Asian Tigers (or Asian Dragons) is used in reference to the highly free market and developed economies, notable for maintaining exceptionally high growth rates, over 7 percent a year, between 1960s and 1990s. The other two are Hong Kong and Taiwan. Nigeria has a lot to learn from them.

Nigeria: Features of a Non- Entrepreneurial Nation.

Land area-	910,768sq.Km
Water area-	13,000sq.Km
Total area-	923,768sq.Km
Population-	178.5m(2014 estimate)
School enrolment, primary	(% gross)- 85%
Life expectancy-	52years
Poverty (% of population)-	61%
GDP (current US\$)-	573.65 billion
Position-	21 in the world
Per capital income-	\$2,950
Classification-	Lower middle- income/

Sectoral contribution of GDP

Preferred sectors	{	Manufacturing	9%	}	30%
		Agricultural	21%		
Less preferred sectors	{	Commerce	13%	}	70%
		Services	57%		
Total					100%

Source: Compiled by author from the African Economic Outlook (AEO), 2015.

Nigeria, like most other third world nations, is under developed because she is not entrepreneurial in outlook and practice. The following are her common features: food crisis, high domestic and foreign debts, environmental ravages, low life expectancy, high level of insurgency and conflicts, low participation in international trade/business; high concentration on the less

preferred sectors (commerce and services), reliance on few export commodities, weak preferred sectors (agriculture and manufacturing), market imperfections, corruption and graft, poor standard of living, high interest rates, poor foreign exchange management, fluctuating exchange rates, unfavourable balance of trade and payment positions, poor governance, disarticulation in virtually all sectors and sub-sectors of the economy, etc, Onuoha(2016) and Ake (1981). Others include: technological backwardness, low per capita income, underutilization of factors of production, uncontrolled population growth, high crime rates, low industrial base, continued depreciation of the national currency- the Naira, staggering youth unemployment, high rate of illiteracy, deteriorating school system, energy crisis, etc. The country is also a dumping ground for all sorts of fake and sub-standard goods, toxic industrial wastes and junks.

The citizens of developing nations are generally poor, and as the former World Bank President, Robert McNamara puts it, “remain entrapped in conditions of deprivation which fall below any rational definition of “human decency”. He further said, “We are talking about hundreds of millions of desperately poor people throughout the whole developing world”. He concludes, we are talking about 40 percent of the entire population. Development is simply not reaching them in any decisive degree”.

Regrettably, most trade and investment decisions in Nigeria are still being taken overseas- the major cities of New York, London, and Tokyo. And more recently in Beijing.

This economic scenario is definitely not acceptable or healthy, for any nation. All efforts must be geared toward reversing it for the good of the people and the country. This country realized huge revenues from oil over the years which unfortunately were not used to diversify the economy. Again she possesses other enormous resources and potentials. Due to poor economic

management, it is still classified as lower middle – income/developing nation.

Features of Entrepreneurial Nations: Singapore and South Korea.

S/NO	Indices	Singapore	South Korea
1.	GDP	\$307.9b (2014)	\$1.42 trillion
2.	Population	5.5m (2014)	50.4m
3.	School enrolment, primary (% of gross)	Na	100%
4.	Life expectancy	82	81
5.	Per capita income	\$55,150	\$25,977
6.	Classification	High income	High income
7.	Position in the world	36	13

Source: Compiled by the author from various sources, 2016.

The triad nations and the other economic blocs such as Nordic Region, Asian Tigers, BRICS, etc, have come through all the five Rostov’s stages of economic growth. They have large manufacturing sectors, but even larger service sectors. Such nations are referred simply as developed economies, Powell (1991:9).

Singapore and South Korea by their per capita incomes are classified as high-income nations and by extension developed countries. Like the other advanced nations, they manifest the following indicators:

- ❖ affordable costs of living/ high standard of living;

- ❖ advanced infrastructural development and its continuous improvement;
- ❖ enhanced education and training and greater employment opportunities;
- ❖ greater self-reliance particularly in food production;
- ❖ more efficient governmental system and the reduction of wasteful economic and organizational practices like embarking on unviable projects, corruption and graft;
- ❖ open and market economies which encourage competition;
- ❖ the development of advanced technology and continuous innovation and further technological breakthroughs;
- ❖ improved productivity and reduction in industrial/ labour disputes/conflicts, and more industrial harmony;
- ❖ stable monetary and fiscal policies/exchange system;
- ❖ sustainable political stability;
- ❖ better balance of trade and payment surplus or position;
- ❖ low crime rate/better crime fighting strategies;
- ❖ a spirited and physically healthy population; encouraging the development of positive public attitude to work, government property and towards entrepreneurship, etc, (Onuoha, 1998:146-7;Onuoha, 2009:19-21 and Onuoha, 2016:24).

Yet others include:

- A more selfless and committed politicians and public servants desirous of leaving legacies. They also exhibit less arrogance in leadership and readily apologize to their people for mistakes.
- A major patriotic and selfless citizenry; more interested in volunteering when the need arises.
- Majority of their corporations and wealthy individuals are more prone to corporate social responsibilities (CSR) than their counterparts in the Third World who believe in a winner takes it all.

- Public policies are target oriented, with milestones that are easily measurable and people held accountable for any policy flaws, and therefore more development oriented. For example, Barack Obama’s economic stimulus package has time frame and measurable targets and clear methods of achieving them. In contrast, most economic policies in the Third World are laden with countless public speeches and sloganeering and without clear cut economic and developments milestones.
- They tend to have more ‘business angels’ and venture capitalists, thus furthering more entrepreneurial activities and projects.
- Have more transparent judiciary, regulatory agencies and honest law enforcement officials, (Onuoha, 2009:20-1).

More on Singapore

Due to her complete entrepreneurial posture, the Singaporean economy is known as one of the freest, most innovative, most competitive and most business friendly. According to the 2015 *Index of Economic Freedom*, this country ranks as the second freest economy in the world. *For the Corruption Perception Index*, Singapore has consistently be ranked as one of the least countries in the world. This is because, most of her citizens are busy and productive, and hence this country has one of the lowest unemployment rates among developed countries. She has also continuously received very favourable ratings from international rating organizations. For example, Singapore is a global commerce, financial and transportation hub. Its standings include: “Easiest place to do business” (World Bank) for nine consecutive years, world’s top international meetings city (UIA), “City with the best investments potential” (BERI), 2nd-most competitive country (WEF), 3rd-largest foreign exchange centre, 4th-largest financial centre, 3rd-largest oil refining and trading centre and one

of the top two busiest container ports since the 1990s. Singapore's best known global brands include Singapore Airlines and Changi Airport, both amongst the most-awarded in their industry; SIA is also rated by Fortune surveys as Asia's "most admired company". For the past decade, it is the only Asian country with the top AAA sovereign rating from all major credit rating agencies, including S&P, Moody's and Fitch (from various sources including wikipedia). There are thousands of multinational corporations from USA, Europe, China, India, etc, in all sectors, operating in Singapore. She has low personal and corporate rates, and therefore, being regarded as a tax heaven.

Education in Singapore is very advanced. Her students consistently rank in the top five in the world in major international assessments of Mathematics and Science subjects, in various years, often conducted by the Organization for Economic Cooperation and Development, OECD, and other global agencies.

Finally, this country is often referred to as the *Lion city, the Garden City and the Red Dot*. The global reckoning of this country will be incomplete without mentioning the contributions of Lee Kuan Yew, who became Prime Minister in 1970 and succeeded in moving the country from the third world status on her independence in 1965 to a developed/advanced nation four decades after. Yew's emphasis was on rapid economic growth, support for business/entrepreneurship, limitations on internal democracy and close relationships with China, McCarthy (1999:7-8).

More on South Korea

All economic and human development indicators indicate that South Korea is an entrenched entrepreneurial nation. She is the most developed country in East Asia and among the richest in the world. This country is a top global performer in education, quality of health care, ease of doing business and regarded as the world's

most innovative country being in the forefront of research and development, a major ship builder, and prominent in e-government. South Koreans are hardworking making it possible for their nation to be the most industrialized member of OECD. South Koreans refer to their nation's phenomenal economic cum technological growth as the *miracle on the Han River*. South Korea has made tremendous advances in tourism, science and technology, cyber security, aerospace research, robotics, biotechnology, electronics, auto-manufacturing, architecture, infrastructure, international trade, etc. These are areas Nigeria's presence is non-existent or low.

It is known globally, that Multinational Corporations (MNCs) are agents of development. Among the multinationals in the Newly Industrialized Countries or Economies (NICs or NIEs), South Korea has the highest number. Some of the popular South Korean multinationals include: Samsung Group, Hyundai, Ssangyong, LG, Doosan Group, Kia, SK Group, Aju Group, etc. These conglomerates are also called *chaebol*.

It is important to note that in the July 22, 2015 *Fortune Global 500 Companies*, South Korea has 17. Currently, this country can boast of hundreds and thousands of indigenous multinational corporations in all the sectors and sub-sectors of the economy.

The origin of South Korean multinationals started with deliberate government policies in cooperation with thirty family owned and centred conglomerates that dominated the Korean economy then, since after the Korean War in 1953, Griffin and Pustay (2010:61). In many ways, South Korea followed the economic path established by the Japanese which include:

- (1) discouragement of imports, which meant strong domestic production; and consumption, and then for exports;

- (2) governmental leadership of the economy, which entailed favourable fiscal, monetary and investment policies and infrastructural development; and
- (3) reliance on large economic combines for industrialization. That is, having professionally managed big enterprises that can withstand competition. After this solid economic foundation, South Korea has been a success story.

Finally, the International Monetary Fund (IMF) often complements the national leadership and the resilience of the South Korean economy against economic crises. This is due to the following factors: low state debt and high fiscal reserves which can easily be mobilized to tackle financial and economic emergencies or challenges.

Creating an Entrepreneurial Nigeria

Entrepreneurial nations did not emerge by chance. They emerged from deliberate efforts and policies of governments and dedication and hard work of their people. Nigeria has enormous natural resources and huge and resourceful population. There is no reason on earth why this blessed country will continue to be underdeveloped or a developing nation. We need our own innovators, inventors, respected entrepreneurs/wealth creators, generational family businesses and indigenous multinational corporations in all the sectors and sub-sectors of the economy. It is by having all these that this country will be globally relevant and recognized.

It is against this backdrop that this paper will make far-reaching recommendations towards our quest to be an entrepreneurial or developed nation.

- ❖ Currently, Nigeria is a mono product economy, and heavily dependent on imports. It is disheartening to observe that this country spends an estimated \$30 billion every year on all types of food imports. On average, \$4

billion is spent every year to import just one item- rice. This is scandalous given that Nigeria has a total area of 923,768sq.km (land area: 910,768sq.km and water area: 13,000sq.km). This country needs to pay more attention to agriculture and manufacturing (the preferred sectors), they are the catalysts to economic development. These sectors are pivotal to food security, raw materials for industries, creation of millions of employment opportunities, and for exports. The preferred sectors should be able to contribute a minimum of 55% to the nation's GDP (agriculture- 35% and manufacturing- 20%).

- ❖ The fight against corruption must be sincere and comprehensive. Corruption is anti-development. All stolen public funds must be retrieved or returned to reflate the economy with all the attendant multiplier effects. We need a more effective and transparent regulatory agencies, law enforcement officials and the judiciary.
- ❖ Our capital markets at the present levels of operation cannot do much to help current and potential entrepreneurs and enterprises, to raise the much needed funds for investments and expansion. As such, there is an urgent need to develop our capital markets to international standards. Nigeria Stock Exchange (NSE) should be comparable to New York, London and Tokyo or other Exchanges elsewhere.
- ❖ The country's trade, investment and industrial policies should be such that they can assist entrepreneurs and their organizations to succeed domestically and globally.
- ❖ Governments at all level (local, state, federal) should engage in massive infrastructural development. This would reduce the costs of doing business which are among the highest in the world and increase case of doing business. The combined effects of this will be to help indigenous products and services to be competitive locally

and in foreign markets. Currently, many businesses are closing shop due to harsh operating environments.

- ❖ No nation will have an industrial or modern economy without steady and reliable power supply. All efforts must be made to complete all power projects and the target should be between 50,000 and 60,000 megawatts. The current generation of 4,000 megawatts is stifling the economy and making the country a generator-based economy to the detriment of business operations and development, thus discouraging entrepreneurship development.
- ❖ There is the need to encourage R&D, the commercialization of research findings, the development of indigenous technology, and the fabrication of industrial machines and equipment.
- ❖ The capacity of the Small-to-Medium Enterprises Development Agency of Nigeria (SMEDAN) and other similar agencies as Bank of Industry (BoI), Industrial Development Centres (IDCs), Nigerian Export Promotion Council (NEPC), Centre for Management Development (CMD), etc, should be enhanced and strengthened to be in better positions to effectively assist entrepreneurs, SMEs and other indigenous enterprises in the country.
- ❖ To be an entrepreneurial nation, it is imperative to deepen the study of entrepreneurship and the inculcation of entrepreneurial culture and spirit in the citizens. This should start from primary to tertiary education. Technical and vocational education should not be relegated to the background as is currently the case.
- ❖ Efforts must be made to encourage the activities of Women in Management and Business (WIMBIZ) such as conferences, seminars, workshops, women empowerment programmes, etc, Onuoha (2016). Women who are not currently members should join. All Nigerian women

should start in earnest to inculcate the culture of entrepreneurship in their children.

- ❖ Another way of deepening entrepreneurial orientation is getting actively involved in international trade or business. Nigerian enterprises should be encouraged to internationalize their operations. This will enable them to earn the much needed foreign exchange, to be export-oriented and lessen the pressures on the demand for foreign exchange used for the importation of all manners of goods, majority of which are sub-standard.

There are a number of opportunities if with full institutional and financial support from successive governments would have enabled indigenous enterprises to participate in global business. One of them is The African Growth and Opportunity Act (AGOA), passed by the U.S Congress in 2000. This Act is a non-reciprocal trade preference programme that provides duty-free treatment to U.S imports of certain products from eligible sub-Saharan Africa countries (SSA). In other words, AGOA encourages export-led growth and economic development in SSA and to improve U.S economic relations with the region. In terms of tariff benefits and general eligibility criteria, AGOA is similar to the Generalized System of Preferences (GSP), a U.S trade preference programme that applies to more than 120 developing countries. However, AGOA covers more products and includes additional eligibility criteria beyond those in GSP, Iruka (2015:117).

AGOA provides for over 6400 different products that are eligible for exports to U.S, but unfortunately, Nigeria's focal points have been on limited agricultural products. Usman (2009) lists them to include shea butter, cashew nuts, spices, sesame seed, shrimps, tubers, specialty foods, etc. Others are textiles/ garments products, such as T. shirts, sportswear, boxers, African prints and wax, aso-

oke, & adire, etc. Yet others are leather and leather products, interior decors, raffia products, art works, precious stones, etc.

The implication is that if Nigerian entrepreneurs and enterprises add more values to these products, are well coordinated and supported by relevant government agencies, such Nigerian Export Promotion Council (NEPC), Bank of Industry (BoI), Nigeria Export-Import Bank (NEXIM), billions of dollars can be generated from AGOA rather than the poultry \$80.83 million made in 2012.

Nigeria should take advantage of similar programmes such as New Partnership for African Development (NEPAD) and The Uruguay Round Agreement and other regional blocs like ECOWAS, etc, Onuoha (2016:161).

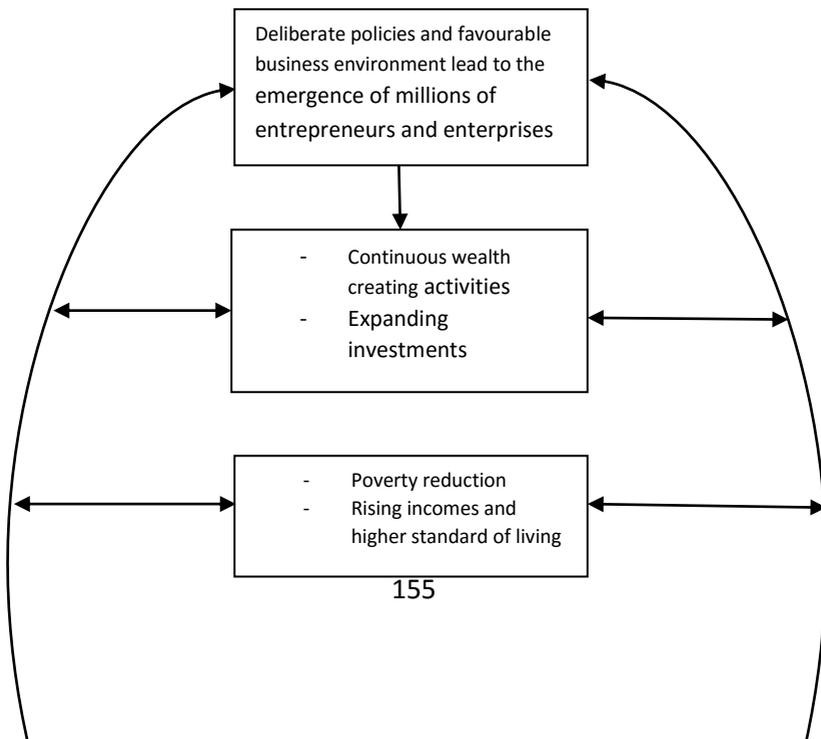
Another method the Nigerian government can encourage the internationalization of indigenous enterprises is to carefully select 35-40 promising companies, in various sectors, and give them maximum incentives to grow to become Multinational Corporations (MNCs). This is what South Korea did after the Korean War in 1953. Federal government should be guaranteeing loans to indigenous firms venturing into world markets, Onuoha (2015)

- ❖ In international economic relations or diplomacy, there are no permanent friends or enemies, but only permanent interests. These interests particularly, the economic ones are clearly defined by every country. Nigeria, for all intents and purposes seems not to have well-articulated national and global economic goals.

Some aspects of our recommendations include active participation in international trade/business and internationalization of indigenous enterprises. Dangote Group, Heirs Holdings, some banks and few other companies are already having strong

international operations, particularly, in a number of African countries. As a matter of economic and development objective, Nigeria should enact laws aimed at preventing the expropriation or nationalization of assets, patents, companies, property, etc, of her citizens by foreigners and/or their governments without adequate, just and prompt compensation. Any such acts, without compensation, should be viewed as serious actions against the economic and national interests of the nation. Such acts must attract threats of or actual retaliations from Nigeria.

Many countries, especially the advanced and newly industrialized, have such laws or policies towards protecting their citizens and their foreign investments and businesses. For example, the American Gonzalez and Hickenlooper Amendments, are for this purpose, Onuoha (1996:279) and Onuoha (2009:104).



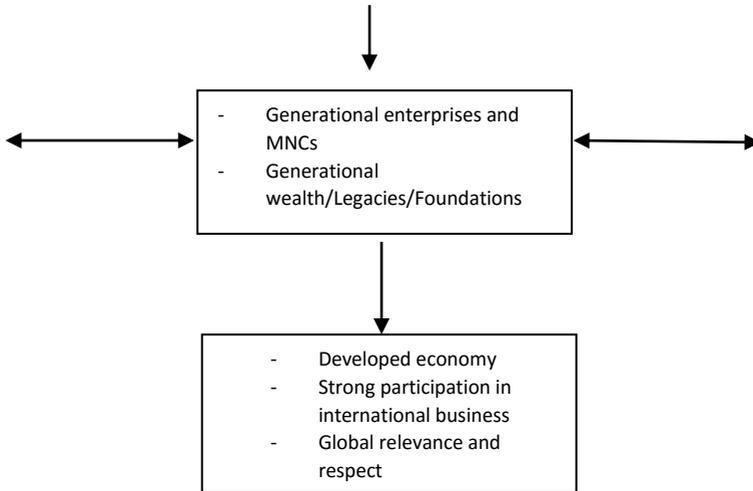


Fig. I: Proposed Entrepreneurial Nigeria

Conclusion

Research findings and all official economic indices have shown that all entrepreneurial nations are developed. And countries that are currently embracing entrepreneurship are fast developing. Nigeria cannot afford to be left behind. This is a wakeup call for the nation's political leaders and policy makers.

It is only by going entrepreneurial that this country can have millions of entrepreneurs, professionally managed small-to medium scale enterprises, generational and multinational companies, a well-diversified economy, higher standard of living for her citizens, etc. Nigeria can only be active in international trade/business and be globally relevant if it goes, full scale, entrepreneurial. This is my message.

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**INTEREST RATE VOLATILITY
AND NIGERIA'S ECONOMIC
GROWTH**

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Abstract

The study aims at establishing how and the extent to which prime lending rate (PLR), monetary policy rate (MPR), treasury bills rate (TBR), and deposit interest rate (DIR) affect the growth rate of Nigeria's gross domestic product (GDPgr). Secondary data were sourced from Statistical Bulletin (a publication of the Central Bank of Nigeria) for the period 1982 to 2014. Data analysis and testing of the formulated hypotheses were done using Statistical Package for Social Sciences (SPSS, Version 16.0) econometric software. Individual and

joint tests were conducted using t-statistics and F-statistics respectively to establish the relationship between the dependent and explanatory variables. It was found that PLR, TBR, and DIR are positively related GDP growth rate contrary to MPR that is negatively related. However, only PLR exerted a significant contribution to the prediction of the dependent variable – GDPgr, while the rest of the variables are insignificantly related to GDPgr. Based on the findings, it is recommended that monetary authorities should manage interest rates professionally so as to achieve the best economically viable and sustainable output (GDP); monetary policy objectives, by extension, should be in consonance with that of fiscal policy in order to achieve desired macroeconomic (interest rate) stability; and monetary authorities should also embark on routine efforts at bridging the widened gap between lending and savings rates so as to foster a moderate rise in nominal rates as well as stabilize inflationary pressure in the country.

1. Introduction

The growth of an economy at any given point in time can be measured in terms of the stability or otherwise of its macroeconomic variables. Macroeconomic variables are those economic indicators that assess the performance of the economic at a given point in time; while economic growth, according to Ismaila and Imonghele (2015), is the increase of per capital gross domestic product (GDP) or other measure of aggregate income. For a country to realize her macroeconomic objectives (such as price stability, employment creation, foreign exchange stability, maintenance of balance of payment viability, increased output, etc), there has to be considerable stability in the movement of that country's macroeconomic variables. The federal government (through the Central Bank of Nigeria - CBN) has put in place various monetary policy measures at various times so as to particularly achieve macroeconomic objectives and stimulate economic growth generally. Of particular interest among these macroeconomic variables is interest rate. Interest rate is the cost of borrowing money by borrowers and the reward for parting with or forgoing liquidity by lenders. Interest rate is a vital macroeconomic variable; its role in economic growth cannot be overemphasized. A change in interest rate has considerable effects

on decisions of economic agents (investors, lenders, borrowers, financial institutions, regulatory institutions, financial analysts, etc) and is mostly watched by economic policymakers. Anyanwu (2012) states that decrease of economic growth results from execution of limiting monetary policies, especially interest rates.

Financial sector reforms, according to Chete (1999), began with the deregulation of interest rates in 1988. In fact, the Nigerian government has since 1986 been pursuing a market-determine interest rate which does not permit a direct state intervention in the general direction of the economy (Nyong, 2007). Prior to this period, the financial system in Nigeria operated under financial regulation and interest rates were said to be repressed (Abayomi and Adebayo, 2010). In this period, interest rate policy was driven by considerations of promoting overall investment and channeling credit to identified priority sectors (Nnana, 2001). In October, 1996, interest rates were fully deregulated with the banks given freedom to determine the structure of the interest rate in consultation with their customers, but the apex bank (CBN) retained the discretionary power to intervene in the money market to ensure orderly development in interest rates (Anyingang, 2012). Meanwhile, for growth to occur there is the need for a relatively stable macro-economic environment (including interest rate stability) which is an indicator for low risk and a condition for attracting investment and boosting entrepreneurial activities.

Nigerian economy has experienced a lot of changes and multidirectional metamorphosis in recent times. The country experiences imbalance which invariably creates structural problems. It is believed that imbalance occurs in an economy when both the micro and macro economic variables fail to respond to policy objectives. The problem with the Nigerian economy is the absence or lack of integration of macroeconomic plans and non coordination of macroeconomic variables including interest rate volatility. There is no doubt that this affects the

general performance of the economy, which is reflected in the country's Gross Domestic Product (GDP). The activity and operation of almost every sector of the economy largely depends on stability or otherwise of macro factors, with particular reference to interest rates captured by prime lending rate (PLR), monetary policy rate (MPR), treasury bills rate (TBR), and deposit interest rate (DIR).

Unfortunately, there are gaps in determining the cause and effect relationship between interest rates (of various kinds) and Gross Domestic Product. It is what this paper is positioned to fill. Thus, study is focused on evaluating interest rate volatility and its impact on Nigeria's economic growth.

2. Literature Review

2.1 Conceptual Literature

2.1.1 Meaning of Interest Rate

Interest simply means the payment made for using another person's money. It is the naira cost of borrowing or naira return for lending money. Interest is governed by three (3) elements, viz; the principal, the rate of interest and the amount of time (Anyanwu, 2012). Hence, rate of interest can be defined as the price or reward established by the interaction of the supply and demand forces. Effective interest rate management is a basic requirement with the view to achieving economic stability. Interest rate management refers to the totality of steps and processes designed and used by the monetary authorities (the CBN) to determine, sustain or support the level of interest rates in an economy in ways that engender the achievement of the stated macroeconomic goals of price and exchange rate stability, rapid and sustainable employment, and generating growth. Interest rate management also entails anticipating the financial markets and developing appropriate policy measures to impact the markets using known monetary tools.

2.1.2 Interest Rate Management Techniques in Nigeria

Interest rate management refers to the totality of steps and processes designed and used by the monetary authorities (the CBN) to determine, sustain or support the level of interest rates in an economy in ways that engender the achievement of the stated macroeconomic goals of price and exchange rate stability, rapid and sustainable employment, and generating growth (Elumelu, 2002). It should be noted that interest rates have been determined over the years by the monetary authorities championed by the CBN. Nigerian economy has experienced periods of both regulated and deregulated interest rates. Current interest rate management techniques in Nigeria include the following: Open Market Operation (OMO), Adjustment of key bank ratios (like cash reserve ratio, liquidity ratio, minimum rediscount rate (now monetary policy rate), and free market determination, among others. Some of these techniques are discussed briefly below.

Open Market Operation (OMO): This refers to the purchase or sale of securities in the money market by the central bank to expand or contract the volume of credit (Ndugbu, 2001:184). The products/securities come regularly to the market and have been attracting a sizeable portion of investors' funds.

Cash Reserve Ratio: This represents the minimum amount of cash deposits to be maintained by a bank (deposit money banks-DMBs) with the central bank. The ratio expresses the relationship between cash deposits to the total deposit liabilities, certificates of deposits, and promissory notes held by the non-bank public. The cash reserve ratio is periodically changed (upwards or downwards), especially when CBN wants to alter the credit creation ability of banks so as to align with prevailing economic realities.

Liquidity Ratio: This technique/instrument ensures that banks are liquid at all times and capable of satisfying the liquidity needs

of their customers. The rate is also reviewed periodically as part of contractionary monetary policy outlook to stem expansion in the money supply through the lending activities of banks.

Monetary Policy Rate: It refers to the minimum rate at which the central bank stands ready to advance loans or discount bills to the banking system. This rate is used by the monetary authority of a country to control the supply of money so as to ensure price stability and general trust in the currency. In Nigeria, it is the duty of the Monetary Policy Committee (MPC) of CBN to set MPR. Nigeria's central bank left the monetary policy rate unchanged at 13 percent at its March 24th meeting in 2015, on the assumption that prevailing policy stance should be enough to anchor inflation expectations. The objective was to increase the cost of funds.

Free Market Determination: This involves the deregulation of interest rates and abolition of sectoral allocation. Under this technique, the regulators only set the rules and allow the operators to play according to their dictates within the rules. This technique also involves the licensing of more banks so as to increase the depth and intensity of competition in the industry.

2.1.3 Factors that Affect or Influence Interest Rate

A number of factors influence the behaviour of interest rate in an economy. Prominent among these are: savings, investment, inflation, government spending, monetary policy stance and taxation. It is generally agreed that the price of any factor of production (land, labour and capital) in a market system is determined by the forces of demand and supply, (market forces). Savings constitute the major sources (supply) of credit while consequently the amount of savings by individual, business, affect the level of interest rate. For instance a decrease in the accumulation of loanable fund(s) is likely to exert pressure on interest rate just as a reverse case or situation would tend to have a moderating effect. According to Okereke and Sanni (2005),

interest rate is affected by the degree of default risks and the timing of loans, among others, and when discussing interest rates, considerations must be given to the following: the difference between normal and real interest rate, prime and lending rate, the term structure of interest rates, and the general level of interest rates.

Inflation is another factor which affects the level of interest rate. Inflation reduces the nominal value of money in order to encourage savings (in financial institutions); nominal interest rate needs to be higher than expected rate of inflation. Government activities influence interest rate on both the demand and supply sides of the market for credit. Government supplies credit by running fiscal surpluses and demands credits to finance fiscal deficits. In addition, monetary policy through expansion and contractions in money supply/stock can influence interest rate. For instance, if money supply is increased, demand for money remaining unchanged, portfolio will shift from cash to securities, leading to lower interest rate. Also, income tax considerations have some influence in market interest rate. For example when borrowers are allowed to deduct interest payments in deriving taxable income, the after-tax cost of fund are less than the prescribed rate. The effect is that the demand for credit is larger than would have been the case in the absence of tax incentives.

Other factors that affect interest rate includes: speculations, expected change in exchange rate and differentials between domestic and international interest rates. More recently, the influence of the continued oligopolistic structure of the banking sector and continued operation of less capitalized banks have affected interest rate development in Nigeria (CBN, 1997).

2.2 Empirical Literature

There have been substantial research efforts, both in theoretical and empirical perspectives, devoted by different scholars in

determining the relationship that exists between interest rates and the economic growth of a country. Saborowski and Weber (2013) employed a structural panel VAR model with interaction terms to identify determinants of effective transmission from central bank policy rates to retail lending rates in a large country sample. The framework allows deriving country specific pass-through estimates broken down into the contributions of structural country characteristics and policies. The findings of the study suggest that industrial economies tend to enjoy a higher pass-through largely on account of their more flexible exchange rate regimes and their more developed financial systems. The average pass-through in the sample increased from 30 to 60 percent between 2003 and 2008, mainly due to positive risk sentiment, rising inflation and increasingly diversified banking sectors. The crisis reversed this trend partly as banks increased precautionary liquidity holdings, non-performing loans proliferated and inflation moderated.

Simon-oke and Jolaosho (2013) empirically assessed the impact of real interest rate on savings mobilization in Nigeria. The Vector- Auto Regression (VAR) was employed, using the time series data from 1980 to 2008. The study revealed that real interest rate has negatively impacted on the level of savings mobilization in Nigeria. The need for government in Nigeria to bridge the existing gap between the lending and savings rates and increase per capita income level of the populace, to stimulate savings for investment and economic growth were revealed by the study. Hence, it was suggested that efforts should be geared towards reducing domestic inflation rate to arrest its negative impact on real rates in Nigeria. Furthermore, a study carried out by Anaro (2010) revealed that unstable interest rates and high inflation do not go well with the bond market. Under a volatile macroeconomic environment, both individuals and institutional investors develop a preference for assets with shorter maturities such as bank deposits and government treasury bills, thus starving the bond market of funds. Thus, Afrinvest believes that strict

adherence to and full implementation of Nigeria's long-term economic strategy and policy thrust, (such as vision 20-20-20) is thus crucial to the development and sustenance of an enabling macroeconomic environment for bonds.

On interest rate risk, any changes in interest rates will have a definite impact on yields and alter trading patterns. It added that currency risk affect both investors and issuers to varying degrees. While issuers are exposed to the risk of a devaluation of its local currency investors on the other hand are exposed to the risk of appreciation of the issuer's currency. Currently, local corporate, namely GTBank and First Bank have issued dollar denominated bonds to the international market. A study carried out by Adofu and Audu (2010) shows by means of robust statistical analysis, the changes in Agricultural production since the deregulation of interest rate in 1986. Using ordinary least square method, data from 1986 to 2005 were examined. The empirical analysis carried out showed that interest rate deregulation has significant and positive impact on Agricultural productivity in Nigeria within the period under review. The empirical analysis also suggest that interest rate play a significant role in enhancing economic activities and as such, monetary authorities should ensure appropriate determination of interest rate level that will break the double - edge effect of interest rate on savers and local investors.

Ogunbiyi and Ihejirika (2014) examined how interest rates affect the profitability of deposit money banks in Nigeria, for the period 1999 to 2012. The estimated results show that maximum lending rate, real interest rate and savings deposit rate have negative and significant effects on the profitability of Nigerian deposit money banks as measured by return on asset, while no significant relationship exists between interest rate variables and net interest margin of DMBS in Nigeria. The study therefore recommends, among others, that banks should improve their profitability through charging moderate lending rates as against maximum

rates as their circumstances may allow. Omanukwue (2010), motivated by the need to establish empirically the validity or otherwise of the quantity theory of money in Nigeria, used the Engle – Granger two – stage test for cointegration to examine the long-run relationship between money, prices, output and interest rate and ratio of demand deposits/time deposits as proxy for financial development. The study established the existence of ‘weakening’ uni-directional causality from money supply to core consumer prices in Nigeria. The study concludes that monetary aggregates still contain significant, albeit weakening, information about developments in core prices in Nigeria.

Anoruo (2002) and Nwaobi (2002) examined the relationship between money, prices, output, and interest rates in the Nigerian context. Anoruo (2002) adopted the Johansen and Juselius cointegration method to establish the stability of broad money demand function in Nigeria during the structural adjustment programme period. His result suggests that a long run relationship existed between M2 and real discount rate and economic activity, concluding that money was a viable monetary policy instrument to stimulate economic activity in Nigeria. A similar research by Nwaobi (2002) using data from 1960-95 established that money supply, real GDP, inflation and interest rate were cointegrated in the Nigerian case. Furthermore, modern research on the Quantity Theory of Money (QTM) such as that of Ahmed (2003) which adopted a block causality test showed that there was a unidirectional causality from output and prices to money. That is, interest rate and money as a block do not cause output and prices, but output and price cause interest rate and money. Contributing, Miyao (1996) used quarterly data for the period 1959-1993 to investigate the long-run relationship between money, price level, output, and interest rates in the United States and found that there was mixed evidence of a long-run relationship prior to 1990 and little or no evidence of a long-run co-integration relationship for the entire sample.

Contributing, Khat and Bathia (1993) used non-parametric method in his study of the relationship between interest rates and other macro-economic variables, including savings and investment. In his study he grouped (64) Sixty-Four developing countries including Nigeria into three bases on the level of their real interest rate. He then computed economic rate among which were gross savings, income and investment for countries. Applying the Mann - Whitney test, he found that the impact of real interest was not significant for the three groups, while Agu (1988) reviewed the determinants and structure of real interest rates in Nigeria from 1970 to 1985. He demonstrated the negative effect of low real interest rate on savings and investment using the usual Makinnon financial repression diagram. His main conclusion was that the relationship between real interest rates, savings and investment is inconclusive. Abu (2006), using two partial models to investigate the impact of investment on GDP growth rate and the relationship between interest rate and investment in the case of the Romanian economy, found out that the behavior of the national economic system and the interest rate-investment-economic growth relationship tend to converge to those demonstrated in a normal market economy. But the study of Oosterbaan, et al. (2000) estimated the relationship between the annual rate of economic growth and the real rate of interest and shows the effect of a rising real interest rate on growth and equally claimed that growth is maximized when the real rate of interest lies within the normal range of say -5% to +15%.

3. Methodology

3.1 Sources of Data

This study employed secondary data basically extracted from the CBN Statistical Bulletin. In addition, the literature review section was compiled using information from relevant internet websites, textbooks, journals, research reports, etc.

3.2 Model Formulation and Specification of Variables

Recall that this study focuses on evaluating interest rate volatility and Nigeria’s economic growth. Considering the number of variables in this study, a multiple regression model is considered appropriate. The model is as stated below; $GDPgr_{it} = b_0 + b_1PLR_{it} + b_2MPR_{it} + b_3TBR_{it} + b_4DIR + \mu_{it}$

Where:

- GDPGR = Gross Domestic Product Growth Rate
- PLR = Prime lending rate
- MPR = Monetary policy rate
- TBR = Treasury bills rate
- DIR = Deposit interest rate
- b_0 = Constant
- μ_i = Error term
- i = Cross section dimension
- t = Time series dimension

b_1, b_2, b_3 and b_4 are the parameters estimated (coefficient of explanatory variables).

Gross Domestic Product Growth Rate (GDPgr): GDP is the market value of all the goods and services produced in a country in a particular time/period. GDP growth rate is the rate at which a nation's Gross Domestic product (GDP) changes/grows from one year to another.

Prime Lending Rate (PLR): Prime lending rate or prime rate is the interest rate at which banks lend to their best (prime) customers. More often than not, a bank's most creditworthy customers borrow at rates below the prime rate, and it is a benchmark against which other rates are measured.

Treasury Bills Rate (TBR): Treasury bills are discounted short-term instruments used by the national or federal governments to regulate money supply or manage liquidity systems in a country; the applicable rate is referred to as treasury bills rate. Unlike other longer term debt instruments the T-bills are offered on a discounted basis, often referred to as risk-free rates. The bills are highly liquid and can be converted into cash at any time.

Monetary Policy Rate (MPR): Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency. It is the duty of the Monetary Policy Committee (MPC) of CBN to set MPR. It is the rate at which CBN lends to deposit money banks in Nigeria. MPR replaced Minimum Rediscount Rate (MRR) on December 8, 2006. Hence, for the purpose of this study, data for MRR (from 1982 to 2005) and MPR (from 2006 to 2014) were used to represent one of the independent variables - MPR.

Deposit Interest Rate (DIR): Deposit interest rate is the rate paid by commercial or similar banks for demand, time, or savings deposits. For the purpose of this study, data for DIR is represented by Deposit Money Banks' weighted average deposit rates published in CBN's statistical bulletin.

3.3 Data Analysis

The importance of the choice of appropriate analytical technique(s) for any research work cannot be overemphasized. The applicable analytical tools should be able to address the research problem and the research hypotheses in the most appropriate manner. The dominant statistical tools for use in this study for data analysis and testing of the formulated hypotheses are explained here-under.

Regression and correlation analysis are perhaps the most commonly used forms of statistical analysis and are invaluable when making a large number of business and economic decisions (Egbulonu, 2007). In this study, regression analysis is employed as a statistical tool for estimating the quantitative relationship between the financial variable that we seek to explain (the dependent variable) and the independent variables. Regression analysis, as a statistical technique, may be simple or multiple. This demarcation is premised on the number of independent variables, which may be one (simple) or more than one (multiple). In this study, multiple regression analysis is adopted.

The estimation of parameters in a multiple regression model can be very complex and time consuming; hence SPSS econometric software has been employed in analyzing the data gathered for this study. Interestingly, the software provides result for measurement parameters like: correlation coefficient (R), coefficient of determination (R^2) or adjusted R-square (R^2), standard error of estimates, t-statistics, F-statistics, autocorrelation test (Durbin-Watson statistic), etc.

4. Data Presentation and Analysis

4.1 Data Presentation

Table 4.1: Yearly Data for Gross Domestic Product (GDP), GDP Growth Rate (GDPgr), PrimeLending Rate (PLR), Monetary

Policy Rate (MPR), Treasury Bills Rate (TBR) and Commercial Banks' Deposit Interest Rates (DIR).

Period	GDP	GDPgr	PLR	MPR	TBR	DIR
	N'bn	%	%	%	%	%
1981	94.33	-	7.75	6.00	5.00	6.25
1982	101.01	7.09	10.25	8.00	7.00	7.75
1983	110.06	8.96	10.00	8.00	7.00	7.75
1984	116.27	5.64	12.50	10.00	8.50	9.75
1985	134.59	15.75	9.25	10.00	8.50	9.75
1986	134.60	0.01	10.50	10.00	8.50	9.75
1987	193.13	43.48	17.50	12.75	11.75	15.10
1988	263.29	36.33	16.50	12.75	11.75	13.70
1989	382.26	45.18	26.80	18.50	17.50	21.40
1990	472.65	23.65	25.50	18.50	17.50	22.10
1991	545.67	15.45	20.01	14.50	15.00	20.10
1992	875.34	60.42	29.80	17.50	21.00	22.10
1993	1,089.68	24.49	18.32	26.00	26.90	23.99
1994	1,399.70	28.45	21.00	13.50	12.50	15.00
1995	2,907.36	107.71	20.18	13.50	12.50	13.96
1996	4,032.30	38.69	19.74	13.50	12.25	13.43
1997	4,189.25	3.89	13.54	13.50	12.00	7.46
1998	3,989.45	-4.77	18.29	14.31	12.95	9.98
1999	4,679.21	17.29	21.32	18.00	17.00	12.59
2000	6,713.57	43.48	17.98	13.50	12.00	10.67
2001	6,895.20	2.71	18.29	14.31	12.95	9.98
2002	7,795.76	13.06	24.85	19.00	18.88	16.50
2003	9,913.52	27.17	20.71	15.75	15.02	13.04
2004	11,411.07	15.11	19.18	15.00	14.21	13.32

2005	14,610.88	28.04	17.95	13.00	7.00	10.82
2006	18,564.59	27.06	17.26	12.25	8.80	8.35
2007	20,657.32	11.27	16.94	8.75	6.91	8.10
2008	24,296.33	17.62	15.14	9.81	7.03	11.84
2009	24,794.24	2.05	18.99	7.44	3.72	12.85
2010	54,612.26	120.26	17.59	6.13	5.60	5.67
2011	62,980.40	15.32	16.02	9.19	11.16	4.70
2012	71,713.94	13.87	16.79	12.00	13.60	7.18
2013	80,092.56	11.68	16.72	12.00	10.42	5.54
2014	89,043.62	11.18	16.55	12.25	12.38	9.16

Source: Central Bank of Nigeria Statistical Bulletin (several years)

4.2 Data Analysis

4.2.1 Regression Results

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.458 ^a	.210	.097	25.93878	2.368

a. Predictors: (Constant), DIR, PLR, TBR, MPR

b. Dependent Variable: GDPgr

From table 4.2 above, the result for goodness of fit is 0.210 (adjusted to 0.097), depicting that about 21% of the changes in dependent variable (GDP growth rate – GDPgr) is accounted for by the independent variables. The Durbin-Watson (DW) test of autocorrelation shows an absence of serial autocorrelation. This is because the calculated value of DW (2.368) is closer to 2 than otherwise; hence we reject the hypothesis that there is presence of

4.2.2 Hypotheses Testing

Hypothesis one:

H_{01} : Prime lending rate (PLR), monetary policy rate (MPR), treasury bills rate (TBR), and deposit interest rate (DIR) do not exert significant (individual) impact on Nigeria's economic growth.

Test statistic: Table 4.3 above shows the following calculated values: 2.107 (for PLR), -1.304 (for MPR), 0.594 (for TBR), and 0.472 (for DIR), with prob. values of 0.044, 0.203, 0.557, and 0.641 respectively.

Decision/conclusion: The prob. value of 0.044 (for PLR) is the only one below 0.05, while others exceed 0.05, hence we conclude as follows: prime lending rate (PLR) exerts significant impact on Nigeria's economic growth; while monetary policy rate (MPR), treasury bills rate (TBR), and deposit interest rate (DIR) do not exert significant impact on Nigeria's economic growth.

Hypothesis Two:

H_{02} : Interest rates do not have joint significant impact on Nigeria's economic growth.

Test statistic: The study's F-calculated value is 1.859, with prob. value of 0.146 (see table or appendix).

Decision/conclusion: Since the prob. value of 0.146 falls outside 0.05, we accept the null hypothesis (H_{02}) and conclude that interest rates (PLR, MPR, TBR, and DIR) do not have joint significant impact on Nigeria's economic growth.

5. Conclusion and Recommendations

Effective interest rate management policies, no doubt, can influence economic growth through investment or increased productivity. However, economic theory and empirical studies are vague regarding the impact of interest rates variation on economic growth, as some models predict negative or positive impacts. The interest rates captured in this study are adjudged relatively stable over the years, but do not substantially contribute to the growth of the economy. The results show that prime lending rate, treasury bills rate, and deposit rate are positively related to economic growth, while monetary policy rate has a negative relationship with Nigeria's economic growth. Nevertheless, only prime lending rate exerted a significant contribution to the prediction of growth in Nigeria's Gross Domestic Product. This result corroborates the findings of Obamuyi (2009) which indicate that real lending rates have significant effect on economic growth; the study found a unique long-run relationship between economic growth and its determinants, including interest rate. The results imply that the behaviour (stability or otherwise) of interest rate is important for economic growth, especially as it concerns investors' attitude. In a volatile macroeconomic environment (like Nigeria), both individual and corporate investors prefer to invest in assets with shorter maturities such as government treasury bills. According to Patrick and Nwike (2007), exchange and interest rates have positive linkage with and enhances investment, thereby leading to economic growth. Thus, the need to formulate and implement financial policies that enhance investment-friendly rate of interest cannot be over-emphasized.

Nigeria is known for macroeconomic instabilities and price fluctuations from one political regime to the other. This is partly attributable to ineptitude on the part of policy makers (via unrealistic policy frameworks) and the country's overdependence on external economies. This brings to the fore the need to change our import dependency syndrome and export more. The study's empirical result is an attestation to the fact that the country's

macroeconomic (particularly interest rate) policies, as managed by the CBN, are yet to live up to its bidding in terms of economic growth stimulation.

Based on the findings of this study and the conclusion that follow, we recommend as follows;

- i. Monetary authorities should manage interest rates professionally, to the extent that the best economically viable and sustainable output (GDP) should be targeted.
- ii. Monetary policy objectives, by extension, should be in consonance with that of fiscal policy in order to achieve desired macroeconomic (interest rate) stability.
- iii. The monetary authorities should also embark on routine efforts at bridging the widened gap between lending and savings rates so as to foster a moderate rise in nominal rates as well as stabilize inflationary pressure in the country.
- iv. The fact that monetary policy rate (in this study) exert a negative relationship with Nigeria's economic growth is an indication that the Central Bank of Nigeria, as the country's apex financial regulatory institution, has to step up in her effort to stimulate the economy.
- v. Finally, Central Bank of Nigeria should institute policies that will minimize the magnitude of significant interest rate volatility in the country.

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APPENDIX: SPSS Regression Result

Descriptive Statistics

	Mean	Std. Deviation	N
GDPgr	25.3815	27.29569	33
PLR	17.9382	4.64428	33
MPR	13.1270	4.06904	33
TBR	12.1145	4.83778	33
DIR	12.2236	5.09235	33

Correlations

		GDPgr	PLR	MPR	TBR	DDR
Pearson Correlation	GDPgr	1.000	.346	.013	.063	.171
	PLR	.346	1.000	.640	.637	.694
	MPR	.013	.640	1.000	.945	.771
	TBR	.063	.637	.945	1.000	.740
	DIR	.171	.694	.771	.740	1.000
Sig. (1-tailed)	GDPgr	.	.024	.472	.363	.171
	PLR	.024	.	.000	.000	.000
	MPR	.472	.000	.	.000	.000
	TBR	.363	.000	.000	.	.000
	DIR	.171	.000	.000	.000	.
N	GDPgr	33	33	33	33	33
	PLR	33	33	33	33	33
	MPR	33	33	33	33	33
	TBR	33	33	33	33	33
	DIR	33	33	33	33	33

Variables Entered/Removed^b

Model	Variables Entered	Variables Removed	Method
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1	DIR, PLR, TBR, MPR ^a		. Enter
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a. All requested variables entered.

b. Dependent Variable: GDPgr

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.458 ^a	.210	.097	25.93878	2.368

a. Predictors: (Constant), DIR, PLR, TBR, MPR

b. Dependent Variable: GDPgr

ANOVA^b

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	5002.775	4	1250.694	1.859	.146 ^a
Residual	18838.974	28	672.821		
Total	23841.749	32			

a. Predictors: (Constant), DIR, PLR, TBR, MPR

b. Dependent Variable: GDPgr

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.3988	62.7017	25.3815	12.50347	33
Residual	-39.40264	78.76181	.00000	24.26351	33
Std. Predicted Value	-2.062	2.985	.000	1.000	33
Std. Residual	-1.519	3.036	.000	.935	33

a. Dependent Variable: GDPgr

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4

EVALUATION OF EMPLOYEES PARTICIPATION IN DECISION MAKING PROCESSES (EPDMP)

ON THE PROFITABILITY OF HOSPITALITY ESTABLISHMENTS IN IMO STATE

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Abstract

This work looked at the effects of EPDMP on the profitability of hospitality establishments in Imo State. In carrying out this research, six major processes of EPDMP were examined. Six objectives, research questions and hypotheses were drawn for the study. A total of 1,107 employees from twelve selected hotels in the three zones in Imo State forms the population of study. Sample size of 294 copies of structured questionnaire was used to collect data. The data collected were analyzed and tested using ordinal logit and regression. The data analyzed showed EPDMP in problem identification, situation analysis, information gathering, information analysis, evaluation and choice making and implementation and monitoring have positive significant impact on profitability

of hospitality firms. It is therefore concluded that every hospitality organization should ensure that their employees participate in decision making through the articulated processes. It is recommended that EPDMP should be encouraged in the hospitality firms in Imo State and in Nigeria in general because of the associated positive benefits

1.1 Introduction

Hospitality organizations are establishments that are made up of various sub-units like accounts, food and beverage unit, accommodation (Housekeeping), laundry, management information unit, front office, maintenance and stores. Each of this unit work hand in hand to deliver efficient and effective services and products to customers with the aim of making profit which is one of the major aims of every business. These units even have some other sub-units in some of the sections like food and beverage unit which is made up of kitchen, restaurant and bar. Each sub-unit also works as a synergy to deliver food, beverages and other services to customers/guests. But these units cannot work well without involving the staff in making decisions concerning their units (Robin 2003). This is because each of these units has a particular factor that made it to be different from other units. Hence, the service of an expert in such unit is required instead of using only the hotel manager who might have specialized in a particular area for all decisions. This is why Ukabuilu (2012), Robins (2003) and Juechter (1982) opined that hotels in New York are doing well because they have taken into consideration the importance of employees' participation in decision making and as part of human relations skills.

Employee participation is the process whereby employees are involved in decision making processes, rather than simply acting on orders. It is a joint decision making in which employees are invited to help in solving organizational problems (Tjosvold, 1987). Tjosvold also said that employees' participation in decision making gives the employees the legitimacy to discuss

organizational issues and problems and provide a setting for decision making. Lawler (1986) also opined that if employees are involved in decisions that affect their work situation then, better working methods will be devised. However, Lawler brings three conditions for effective employee's participation for decision implementation. They include: knowledge, motivation and mechanism. This simply implies that the staff must have good knowledge of such type of business, well motivated and there should be the mechanisms to achieve proper decision making in hospitality organizations (Hartline and Ferrel 1996). Robin (2003) views employee participation decision making as "a participative process that uses the entire capacity of employees and is designed to encourage increased commitment to the organizational success; hence, subordinates significantly share a significant degree of decision making power with their superiors" (Robbins. 2003). Employee participation decision making (EPDM) also increases profitability, productivity, job satisfaction, and motivation. It is a part of human relations skills which when employed by management, energises the employees to work towards satisfying such aim since such target/decision is agreed by them (Ukabuilu 2012).

On the other hand, the employees may work against such if they are not involved in reaching a consensus regarding such decision. On the contrary, Herman (1989) said that employees participation decision making can be time wasting and counterproductive and can reduce people's effectiveness and job satisfaction. It is also pertinent to note that Robbins (2003), Juechter (1982), and Loch, Sting, Bauer and Mauermann (2010) opined that there are dozens of researches showing that employees participation in decision making have modest influence on productivity, motivation and job satisfaction. But the problem is not in participation itself. Participation can be effective if it is done in the right conditions, processes and right implication. Hence, this study examines the

sequential processes that are involved EPDMP and their profitability benefits to Hospitality Establishments.

1.2 Statement of Problem

EPDMP are the sequential steps involved in getting problems solved to the benefit of the organizations through involving staff in the organization. These can be done through problem identification, situation analysis, information gathering, information analysis, alternative seeking, evaluation/selection and implementation. Marks (2013) and Ukabuilu (2012) opined that these steps aids in giving adequate attention to such issues of EPDMP and ensures they are adhered. These will also aid in reducing cost, improving profit and sales volume through well articulated steps (Ukabuilu 2012).

But these steps have been neglected in pursuance of Profit and adhering to some employees who follow Herman's (1989) points of view, who view EPDMP as time wasting, counterproductive and it reduces people effectiveness and job satisfaction. Hence, this work will examine the importance of EPDMP in hospitality establishment in Imo State and its effects in profitability of hospitality establishments.

1.3 Objectives of the Study

The main objective of this study is to ascertain the essentials of EPDMP on the profitability of hospitality establishments. The specific objectives are to examine whether EPDMP through:

- (i) Employee participation in Problem definition/identification has any significant effect on the profitability of hospitality firms.
- (ii) Employee participation in situation analysis has any significant effect on profitability of the hospitality establishments.

- (iii) Employee participation in Information gathering has any significant effect on the profitability of hospitality establishment.
- (iv) Employee participation in Information analysis has any significant effect on the profitability of hospitality establishments.
- (v) Employee participation in Evaluation and choice has any significant effect on the hospitality firms.
- (vi) Employee participation in Implementation and monitoring has any significant effect on the hospitality firms.

1.4) Research Questions

- (a) Does Employee participation in problem identification/definition has any significant effect on profitability of hospitality firms
- (b) Does Employee participation in situation analysis has any significant effects on the profitability of the hospitality firm.
- (c) Does Employee participation in Information gathering have any significant effect on the profitability of the hospitality firm?
- d) Does Employee participation in Information analysis have any significant effect on the profitability of the hospitality firm?
- (e) Does Employee participation in Evaluation and choice made employees have any significant impact on the hospitality firms.
- (f) Does Employee participation in Implementation and monitoring have significant effect on hospitality firms?

1.5 Hypotheses

These hypotheses were drawn from research questions above.

- (i) EPDM on problem identification/definition has no significant effect on profitability of hospitality firms.

- (ii) EPDM on situation analysis has no significant effect on profitability of hospitality firms.
- (iii) EPDM on information gathering has no significant effect on the profitability of the hospitality firms.
- (iv) EPDM on information analysis has no significant effect on the profitability of the hospitality firms.
- (v) EPDM on evaluation and choice has no significant effect on the hospitality firms.
- (vi) EPDM on implementation and monitoring has no significant effect on hospitality firms.

1.6) Significance of the Study

This research will benefit the hotel owners, consultants, employees, researchers and government of Imo State and any other state that imbibes such idea. It will benefit hotel owner, through knowing the sequential processes involved in EPDM. It will equally benefit hotel and tourism consultants by using the information as guide to other hotels.

Researchers in these related areas can equally use material for reference for further studies. Employees will be equally be benefited because they can continuously be in their job due to job satisfaction and their wages/salaries which are promptly paid due to constant profit the organization is making. The state government will equally benefit through taxes paid by these organizations like value added tax (VAT), income tax business operation tax and will equally use it to reduce unemployment rate in the state.

1.7 Scope of the Study

This study revolves round all the hotels in the Imo State. Based on lack of accurate data on the number of hotels in Imo State, a total of four hotels each were purposively selected from the three major zones in Imo State. The selected hotels have different sections and operate EPDM. These twelve hotels offer a lot of tourist

attractions which EPDM help them in reaching a consensus regarding the policies/matters in the organization which made them to be seen as hospitality haven. The work is narrowed down only on ascertaining the importance of EPDMP on the profitability function only.

2.0 Conceptual and Empirical Review of Related Literature

2.1 Employee Participation in Decision Making Process

Decision making process is the sequential format or steps required to arrive at an agreement or focus point for any problem/objective for decision implementation (Deming, 1982). Hence, for every hospitality establishment to achieve good result through proper decision making, the following decision making process should be followed:

- Problem definition / identification
- Situation analysis
- Information gathering
- Information analysis
- Alternative / plausible solution
- Evaluation and choice
- Implementation and monitoring

(a) **Problem Definition / Identification:** Based on the fact that hospitality establishments have many departments, and all units/department work towards excellent performance of the organization. Employee participation in decision making becomes necessary because each unit has its own problem and it is only the employees in the unit that know how best to solve such problems (Hope and Muhlemann 1997, Heskett, Sasser and Schlesinger 1997 and Gronross 1994).

In defining a problem, it is important to consider not just the problem itself but underlying causes and it is only experts in that

sub-areas that can articulate such problem very well (Crosby 1991 and Crosby, 1992).

(b) Situation Analysis: This is the second step in decision-making problem. There are both internal and external environmental forces that can affect this second stage. The organization may have control over internal factors but may not have total control over the external factors. It requires employees who are experienced to carry out this function well so that the situation will not affect the performance of the organization negatively.

(c) Information Gathering: It is also rational to recall an adage which says "it is only nose that is nearer to mouth that will quickly understand the smell of the mouth". It is people in those units that know more about such unit that can give or gather quick and reliable information about such problem in their sub-unit. This saves both cost and time to the organization which on the other hand affect profit of the organization (Gale 1990. Berry 1995, Mckenna 1991 and Agulanna and Madu 2003).

(d) Information Analysis: This is the fourth step in decision making process. All information gathered is analyzed based on how relevant they are. Those that are considered relevant are separated and used. It is also pertinent to note that it is only employees who are in that sub-unit that can elucidate reasons why some factors are considered relevant or not. Hence EPDMP is also vital here. Not only this; how quick such information is analyzed depends on the knowledge and mechanism, and motivations available (Lawler, 1986. and Gallois and Callan 1987).

(e) Alternatives / Plausible Solution and Choice: It is also essential to note that it is only when employees in such various units are involved in decision making that they can give plausible

solution /alternative to various actions based of their experiences. More so, numbers of alternatives generated depend on the knowledge of the employees, therefore, the more experience of participating employees who are in such unit, the more authentic and reliable alternative they will make. This will aid in reducing time wasting and cost of seeking for experts outside. This will on the same view reduce cost of operations which will invariably affect profit, productivity and sales volume.

(f) Implementation / Monitoring / Evaluation

This is the last step involved in decision making process. This is a stage where the employees implement the decision taken at their various units in the organization; the decision must be monitored and evaluated to ascertain whether they are working in conformity as specified. Hence some corrections can be made to strengthen the activities where there are deviations. It is also worthy to note that it is also the owners of the organizations that should create the enablement for the set plans to work. This can be done through provision of materials, machines and manpower for the activities. More so. based on the fact that the employees participated in the decision making, they always work towards achieving the stated results (Gummesson 1996).

On the contrary, a situation where the unit head/workers are not in support of such decision reached, they have to work against it (Gummesson, 1994 and Bateson 2000). This will invariably affect cost, time and productivity negatively which on the other hand affect the profitability of the organizations.

Empirically, some studies have been done to ascertain the effect of EPDMP on the performance of some organizations outside our countries. In a research carried out by (Robbin 2005) at Amarance Pyramid Cairo and Cairo Marriot Hotel & Omar Khayyam Casino in Egypt showed that employees participation in decision making has negative impact on performance of the

hotels. He said out of 180 respondents used, 80% of total respondents confirmed that it is time wasting and counterproductive. 78% of total respondents also confirmed that it can reduce people's effectiveness and job satisfaction. Robin (2005), Juechter (1999), and Herman (1999) confirmed that this type of result is always obtained due to organizational and environmental factors and when the ideas brought in by most people are not implemented, they work towards seeing that the idea does not work. Hence it has impact on production but it is a negative impact.

In a study carried out by Enrick, and Brown (2004) at Onomo Dakar and Hotel Le Djoloff in Dakar showed that the chi-square used in testing the impact of employee participation in organization's production, sales and motivation, it showed that employee Participation is a good sales motivational tool .This was shown when (X^2 cal (10.45) > X^2 tab (5.99)). It also confirmed that "it affects productivity of the organization" at (X^2 cal 14.10 > X^2 tab 5.99) and finally that it affects motivation of the employees where X^2 cal (9.24 > X^2 tab (5.99)). They said that people from the selected hotels gave their reason for this as "when subordinate take part in the decision making process, they are motivated to implement the decision as it becomes their own. Also when people are permitted to participate in solving problems relating to their work, they will become personally and often keenly interested in making their ideas succeed".But to my knowledge no research has been done on ascertaining the effect of EPDMP on profitability of hotel organizations.

Therefore, this study will examine the importance of each of these steps and how beneficial they are to the profitability of the hospitality firms.

Research Methodology

3.1 Population of the Study:

A total of twelve hotels from three major zones were selected to represent all other hotels in Imo State. The total number of 1,107 employees were said to constitute the total workforce of these selected hotels comprising of 731 females and 376 males.

3.2 Sample Size

The sample size was computed using Taro Yamane formula as opined by Yamane (1967)

$$n = \frac{N}{1 + N (e)^2}$$

Where n = sample size, N = population size, e = tolerable error
 Hence where N = 1, 107, where 5% is mainly used for business research as “e”.

$$n = \frac{1, 107}{1 + N (0.05)^2}$$

$$\frac{1, 107}{3.7675} = 293.8 = 294$$

3.3 Sampling Procedure

Two sampling procedures were adopted in the study. They are probability method, which gives every staff opportunity to receive a copy of the questionnaire and the non probability method which was used in agreement with formula given by Ukabuilu (2012) where he state that the result obtained in any research is as adherence of this formula $R = f (C. I. Y)$.

Where R = result obtained in a research

f = refers to function

C = class of people

I = In-depth knowledge of the respondents

Y = Years of experience of the respondents

These made the researcher to select the hotels because of their track records and belief that they are adhering EPDMP in their day to day operations. This method was equally used in selecting the some staff that they assumed to hold some positions, have in-depth knowledge and have years of experienced in the selected hotels. The questionnaires were equally shared according to the population of the hotels using simple proportion method.

$$n_h = \left(\frac{nN_h}{N} \right)$$

Where h = hotel

n = sample size of the hotel h

N_h = population size of the hotel h

3.4 Method of Data Analysis

Ordinary Logit Regression (Ologit) Analysis was used to analyze the data collected. These analyses were carried out using statistical software package STATA 15.0.

Questionnaire Design:The questions were operationalized in five-point Likert format of: strongly agreed (5), agreed (4), undecided (3), disagreed (2) and strongly disagreed (1).

Model: The logit regression is based on the logistic model.

Table 4.1: Testing of the effect of EPDMP on profitability of hospitality organization

<i>Y₁</i>	<i>Coef.</i>	<i>Std error</i>	<i>Z</i>	<i>P > z </i>	<i>95% Coef.</i>	<i>Interval</i>
<i>X₁</i>	0.987405	.0400261	2.47	0.036	.1192937	.293863
<i>X₂</i>	0.0175664	.0.257412	0.68	0.015	.0617596	.0580324
<i>X₃</i>	0.2289435	.0707742	3.23	0.031	.2559705	.0174385
<i>X₄</i>	0.210349	.0843166	2.49	0.003	.0300345	.03441072

X_5	0.0430865	.0701972	0.61	0.031	.1346684	.1371626
X_6	0.0285937	.0306974	0.93	0.020	.0414684	.0820947

- Where Y_1 = Profitability
- X_1 = Problem definition/identification
- X_2 = situation analysis
- X_3 = Information gathering
- X_4 = Information analysis
- X_5 = Evaluation and choice
- X_6 = Implementation / monitoring

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

$$= 0.98X_1 + 0.017X_2 + 0.228X_3 + 0.210X_4 + 0.043X_5 + 0.028X_6$$

$$Y_1 = 0.98X_1 + 0.017 + 0.228X_3 + 0.210X_4 + 0.04X_3 + 0.028X_6$$

Table 4.1 above shows that the profitability of hospitality firms is affected thus: problem definition/identification has (x_1) has p-value of 0.036; situation analysis has p-value of 0.015, information gathering (x_3) has p-value of 0.031, information analysis (x_4) has p-value 0.003, evaluation of choice (x_5) has p-value 0.031, and implementation has (x_6) has p-value 0.020.

Based on the decision rule which states that if p-values is less 5%, we should reject the null hypothesis (H_0) and accept the alternative(H_1).Also since the coefficient values are all positive, that means all the EPDMP have positive effect on profit when they are properly implemented with the following values.

- X_1 (Problem definition/identification)=0.98
- X_2 (situation analysis)=0.017
- X_3 (Information gathering)=0.228
- X_4 (Information analysis)=0.21
- X_5 (Evaluation and choice)=0.043
- X_6 (Implementation / monitory) =0.28

These results are also in conformity with the research done by Enrick and Brown (2004) which supports that Employee participation in decision making has impact on the performance of hospitality organizations as stated in the empirical study; but disagreed with Robbin (2005) which that it is time wasting, counterproductive, reduced job satisfaction and employees effectiveness.

Findings

- (i) EPDMP in problem definition and identification has significant effect on the profitability of hospitality firm.
- (ii) EPDMP through situation analysis has significant effect on the profitability of hospitality firm.
- (iii) EPDM through information gathering has significant effects in the sales volume of hospitality firms.
- (iv) EPDM through information analysis (x₄) has significant effect on profitability of hospitality establishments.
- (v) EPDM through evaluation or choice has significant effect on the profitability of hospitality establishments.
- (vi) EPDM in implementation/monitory has significant effect on profitability.

Conclusion:

EPDMP were seen as major steps toward achieving profitability of hospitality establishments. Therefore this study confirms that

- (i) No particular firm can function well without employees involving in decision making in the organization..
- (ii) No organization can function without some the steps/processes elucidated
- (iii) Accurate attention is required for each process since it affects the profit of the organization.
- iv) The EPDMP variables considered have positive effect on profitability of hospitality organizations

Recommendations

It is therefore recommended that any hospitality establishment that wants to improve its profit should ensure that they inculcate their employees in issues concerning

- Problem identification/definition in their various organizations
- participating in analyzing various situations surrounding such problem in their unit
- Information gathering, more especially in areas where specialization should be given upper hand.
- Information analysis should be done by people in such irrelevant area, in order to get better result, suggestions and alternative solution where necessary
- Evaluation and choice should be done by employees in various unit based on how such problem affect them. Solution or choice from alternative should be properly considered based on the effects to departments.
- Proper implementation and monitoring of plans objectives or aims should be done This will aid us to have a basis for control and adjustment where necessary.

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APPENDIX QUESTIONNAIRE

Please tick (✓) correct answers to these questions below:
Where these variables represent Strongly Agree (SA), Agreed (A), Undecided (U), Disagree (D) and Strongly Disagree (SD)

Employee Participation in Decision Making Processes (EPDMP) which occur through these processes:

A. Problem definition/identification helps us to:	SA	A	U	D	SD
<p>Identify problems from each unit/department</p> <ul style="list-style-type: none"> - Quickly identify such problems - Save cost using staff in the organization - Know the like causes of the problem <p>B. Situation analysis helps us to know:</p> <ul style="list-style-type: none"> - Whether the problem is internal or external - What to inform management above it - Whether such situation requires quick attention or not laws and regulation concerning such situation - Workforce to tackle such problem - Facilities and funds required - how economy of the state is affecting such problem <p>C. Information gathering helps us to</p> <ul style="list-style-type: none"> - Gather the information fast - employ less or no outside consultants - Get accurate causes since the where to get them - Know whom to use if it involves observation or surveys <p>D. Information Analysis helps us to know</p> <ul style="list-style-type: none"> - Best method to use for the analysis - How to select the relevant and irrelevant data easily - Best ways for analysis - Best ways for result presentation <p>E. Evaluation/choice: Based on the experience of the employee this helps us in</p>					

<ul style="list-style-type: none"> - Select the best option they deem necessary - Reaching a consensus easily in the best choice - Consider some internal SWOT analysis of the organization Easily since they are members of the organizations <p>F. Implementation and monitoring as a means EPDMP helps to</p> <ul style="list-style-type: none"> - Apply/implement such policy/division accordingly: - Provide the trained staff for it - Assign duties to ensure they are achieved. - Design the jobs to achieve such policy - Monitor the policy <p>G Profitability</p> <p>Do you agree that there EPDMP explained above help us</p> <ul style="list-style-type: none"> - Reduce cost of labor and number of consultants to employ - Quickens production - Increase productivity - Increase sales volume - Improve quality service - Provide customers with what they want - Increase patronage - Provide varieties - Reduce cost of items - Reduce queuing of customers - Improve profit finally 					
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**CRITICAL ANALYSIS
OF THE MARKETING OF
MOBILE PHONES IN THE UK:
A STUDY OF NOKIA LUMIA 1020**

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Abstract

The UK mobile phone market is very competitive. Therefore, the success of any mobile phone model largely depends on the application of the right marketing mix. This paper presents a critical analysis of the marketing of Nokia Lumia 1020 in the UK market. A case study approach was employed. Key findings show that the augmented component of the Lumia 1020 was overemphasized at the expense of its core and expected attributes. Additionally, although Lumia 1020 is at the growth stage of its life cycle, the product is a 'question mark'. Finally, although over 30% still uses basic phones, most current smartphone users use iPhone and Android smartphones while only 8% use windows smartphones. It is therefore recommended that Lumia 1020 should be redesigned to create a perfect balance across the three product levels. Additionally, promotional emphasis should shift from awareness creation to repurchase and preference building whilst vigorous sales efforts, intensive distribution are also required to peddle the product. Strategic marketing implications of findings were intensively discussed.

Introduction

“Marketers have always had to develop brands, create demand, promote sales, and help their companies earn customers’ loyalty” (Joshi and Giménez, 2014, p. 65). But today’s unstable marketing environment means that these generic roles have become more complex and difficult to implement. In this paper, a critical analysis of Nokia Lumia 1020 (a brand which is now under the stewardship of Microsoft Corporation) is presented. Lumia 1020 was launched in the UK market in September 2013 (Martin, 2013) to strengthen Nokia’s position in the mobile phone market. During 2011, Nokia is believed to have lost as much as 7% market share, giving it about 24% of the global smartphone market by early 2012 after posting a net loss of €1.07 billion compared with a profit of €745 million in 2010 (Baines *et al.*, 2013). These phenomenal losses seem to have informed the acquisition of Nokia by Microsoft Corporation in 2014 in a deal that is worth over 7 billion US dollars. The presence of well-established smartphones such as Samsung galaxy, iPhone and so on imply that Lumia 1020 requires a great deal of marketing savvy to make an outstanding impact in the UK market. This

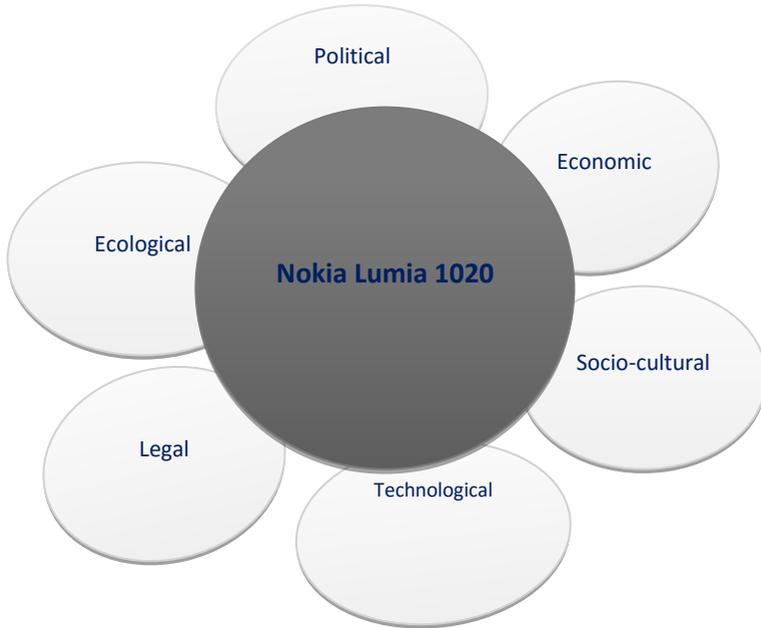
paper is therefore essentially a mapping exercise that critically analyses Nokia Lumia 1020 in the light of key marketing environmental factors, product-based models, segmentation, targeting, consumer behaviour, and positioning strategies.

With regard to the structure of this paper, the UK marketing environment, competition and key issues affecting the marketing of mobile phones are first presented. Relevant marketing theories, concepts and frameworks are thereafter critically discussed. This is followed by a critical analysis of buyers' behaviour, segmentation, targeting and positioning strategies. Finally, marketing mix recommendations and by consequence, the practical implication were intensively discussed.

Marketing environment, competition and the key issues affecting marketing of mobile phones in the UK

Marketing environment consists of actors and forces that affect marketing management's ability to build successful relationships with target customers (Kotler and Armstrong, 2014). These forces can be external or internal. According to Baines *et al.* (2013), PESTLE which stands for political, economic, socio-cultural, technological, legal and ecological environments is the easiest and most popular framework for analysing the external environment (see Figure 1).

Figure 1 The External Marketing Environment



Source: Adapted from Baines *et al.* (2013, p. 37)

The political/legal environment consists of laws, government agencies, and pressure groups which all influence the marketing of products (Kotler and Armstrong, 2014). It affects all aspects of product marketing including designing, labelling, packaging, distributing, and promoting goods and services (Boone and Kurtz, 2014). A good example is the Consumer Telephone Records Act that prohibits the sale of cell phone records. The EU enlargement, international trade, taxation policy, and anticipated increase in minimum wage are some of the political/legal factors that will likely affect the marketability of Lumia 1020 in the UK. Also, several anti-competitive agreements laws between businesses exist in the UK (Office of Fair Trading, 2007). Other bodies like Competition Commission, and Advertising Standards Authority

(ASA) regulate laws that affect marketing activities (Baines *et al.*, 2013).

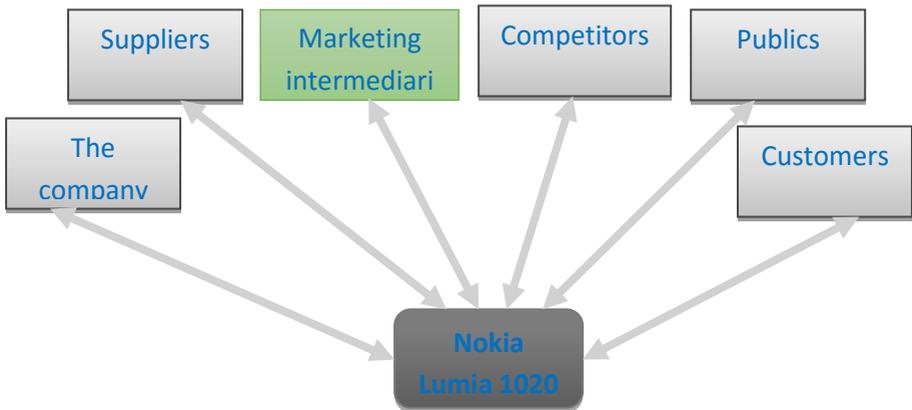
Since markets require buying power as well as people, marketers must keep track records of major trends and consumers' buying patterns both across and within world markets (Kotler and Armstrong, 2014). Inflation, exchange rate, interest rates, population composition are some of the economic factors that pose remarkable influence on company's business activities (Pahl and Richter, 2009). When interest rate rises, consumers cut back on their expenditure (Brassington and Pettitt, 2007). Although consumers have money to spend during recovery, caution often restrains their willingness to buy (Boone and Kurtz, 2014). The pound sterling has been fluctuating in recent times. Such fluctuations make global pricing strategies more difficult. Additionally, due to poor economic data, the Bank of England has shifted interest rate increase to mid-2015 (Monaghan, 2014) and inflation rate is also falling (Inman, 2014). UK population will increase by 4.9 million in 2020 (Office for National Statistics, 2011). All these affect customer demand for Lumia 1020.

Socio-cultural environment has to do with people's lifestyle expectations which evolve over time (Brassington and Pettitt, 2007). "Single-person households are becoming an increasingly dominant feature of British society in a shift that is forcing businesses to review their marketing messages to consumers ... research shows that there are roughly four broad categories of single householders, with wide variations between them in terms of earnings, lifestyle, political affiliation and geographic location" (Cohen, 2013, p. 3). The implicit proposal is that products have to be more custom-made in order to make the desired impact in the UK market.

The technological environment is the most dramatic force shaping the destiny of businesses (Kotler and Armstrong, 2014) whilst

consumers are increasingly concerned about the impact of companies' on their ecological environment (Baines *et al.*, 2013). Lumia 1020 is one of the most admired camera phones in the UK smartphone market due to technology. However, the effect of technology shows that developing smartphones that can dominate Lumia 1020 is very possible. Additionally, UK consumers are environmentally sensitive due to rise in eco-concerns. There is rise in 'fair trade' products (Baines *et al.*, 2008). All these influence the marketing of Lumia 1020.

Figure 2 Actors in the Microenvironment



Source: Adapted from Kotler and Armstrong (2014, p. 93)

According to Kotler and Armstrong (2014, p. 93), “marketing success requires building relationships with other company departments, suppliers, marketing intermediaries, competitors, and various publics which combine to make up the company’s value delivery network”. In summary, marketing of Lumia 1020

is affected by company's strategic objectives, suppliers who provide resources to the company, marketing intermediaries who help the company to promote, sell and distribute products to final users, competing smartphones in the market, financial, media, government publics and so on and customers whose needs must be satisfied. Most of these microenvironmental forces are discussed further in the Porter's five forces model of competition in the section below.

Porter's five forces model of competition

Figure 3 shows the Porter's five forces model of competition. The model was used to analyse the state of competition in the UK mobile phone market. The relevance of the Porter's model in competition analysis is that it provides an assessment of the strength of each of the forces by exposing the competitive factors in operation in an industry (Baines *et al.*, 2013). Porter (2008) argued that for a firm to stake out positions that are more profitable and less vulnerable to attacks, an industry's competitive environment should be reviewed to identify major competitive forces that impact on the firm's present and future positions. An in-depth analyses of the five forces is shown below, but Figure 4 shows at a glance, the state of the five forces in a polar diagram.

Threat of entry: New entrants to an industry bring new capacity and crave for market share which puts pressure on prices, costs and rate of investments necessary to compete; but, this depends on barriers to entry such as economies of scale, incumbency advantages independent of size, capital requirements and so on (Porter, 2008). Several newcomers such as Apple, Samsung and HTC have diversified into the mobile phone industry due to the increasing popularity of smartphones but entering the market as an entirely new entity is very difficult because of the presence of well-established incumbents and capital requirements (Marketline, 2014). Additionally, despite strong growth,

newcomers may be put off by high capital outlay, the scale economies necessary to compete with incumbents, and strict regulations regarding health and safety and the environment (Datamonitor, 2011). Hence, potential entry is assessed to be weak.

The power of suppliers: If suppliers are very powerful, they can put pressure on an industry's profit by charging higher prices, limiting quality or services, or shifting costs to industry participants (Porter, 2008). By raising prices on operating systems, Microsoft has contributed in putting pressure on profitability of the smartphones because these software are a major components for smartphones producers (Marketline, 2014). However, major suppliers within the mobile phone industry are far larger than the individual suppliers of the different components of their products, hence, suppliers' power is assessed to be moderate.

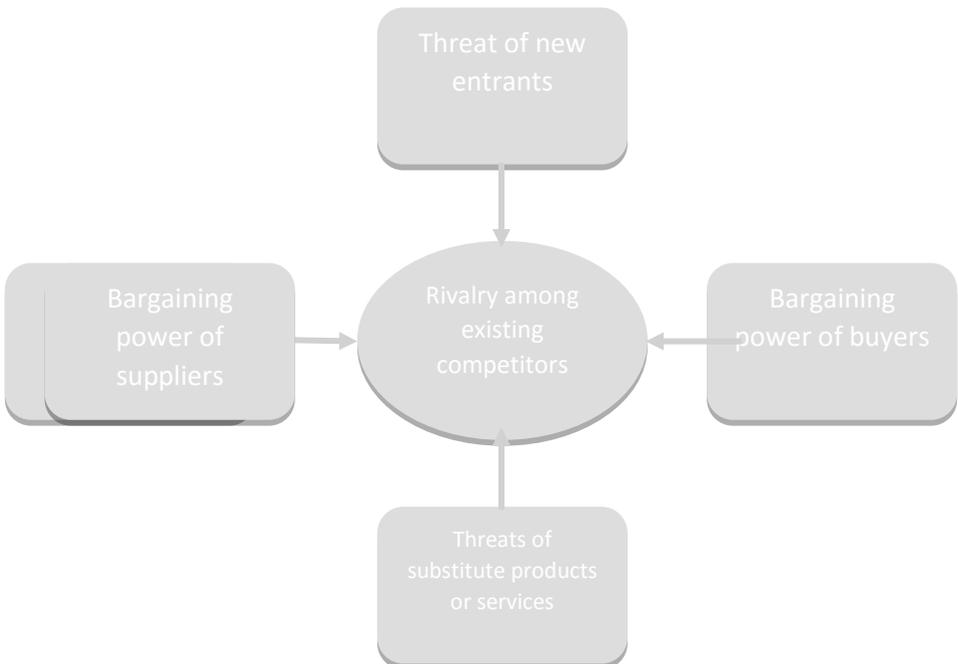
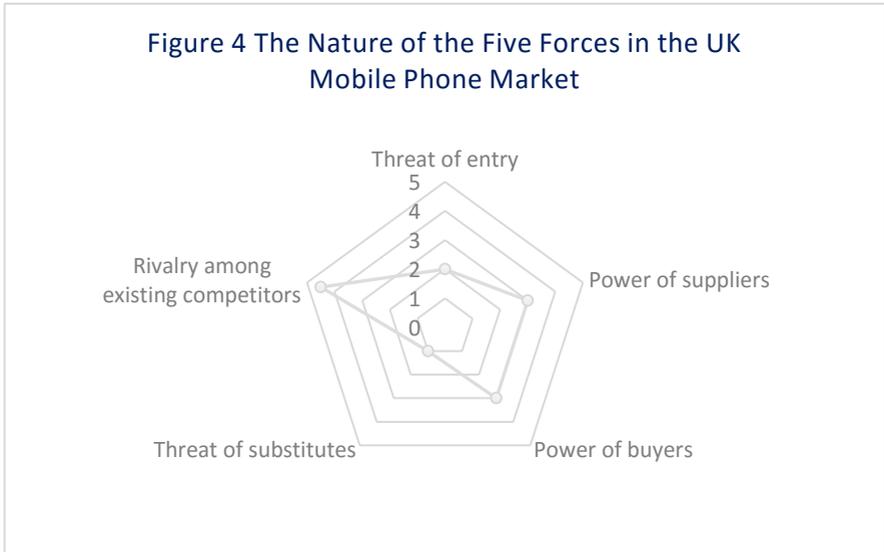


Figure 3 The Five Forces that Shape Industry Competition
Source: Adopted from Porter (2008, p. 80)

The power of buyers: The power of buyers rises if products are undifferentiated, buyers are few in number and make bulk purchases, buyers are capable of backward integration and so on (Porter, 2008). The power of buyers in the mobile phone is assessed to be moderate because they tend to be large, and are therefore able to negotiate contracts in their favour, will find it necessary to stock the latest handsets to meet end-user demand (Datamonitor, 2011) even though products are highly differentiated and manufacturers are capable of forward integration due to their sizes.

The threat of substitutes: The threat of substitute is high if it offers attractive price-performance



trade-off to the industry’s product and the buyers’ costs of switching to the substitute is low (Porter, 2008). A possible substitute of mobile phones is fixed line telephone (with very minimal threat due to portability) and many mobile phones offer such benefits that they have become substitutes for many other electrical appliances, including laptops, televisions, MP3 players and cameras (Marketline, 2014). Hence, the threat of substitute products is assessed as very weak.

Rivalry among existing competitors: Rivalry among incumbents intensifies if competitors are numerous and/or roughly equal in size and power, industry growth is slow, exit barriers are high, rivals are highly committed and aspire for leadership (Porter, 2008). There is no denying that the degree of rivalry in the mobile phone market is very strong. The UK mobile phone market is dominated by a small number of large, well-established

companies such as Apple, BlackBerry, Nokia and Samsung which intensifies rivalry as they can harness greater resources for research and competition (Marketline, 2014). Market growth is slowing, exit barriers are high, rivals' sizes are relatively equal and each firm is committed to its business and aspire for leadership. In summary, the key to survival in the UK's mobile phone market is differentiation and real values that stun customers' experiences.

Critical analysis of relevant theories, concepts, models and frameworks

Lumia 1020's product anatomy

“A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need” (Kotler and Armstrong, 2014). The total product concept consists the core, embodied/actual and augmented products (Baines *et al.*, 2013). The core product comprises the real benefit, the embodied product consists the physical good delivered, and the augmented product is the embodied product including all other factors that are necessary to support the purchase and any post-purchase activities (Baines *et al.*, 2008). Figure 5 shows the three product levels. Whilst the Lumia 1020 appears to be one of the best among the new generation of smartphones, customers' reactions are mixed and some key issues tend to be associated with the product.

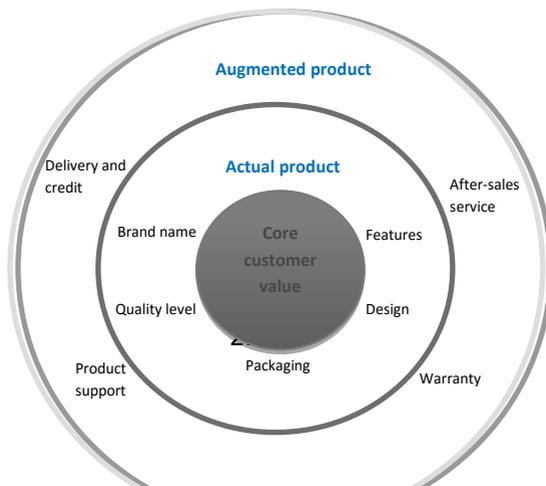


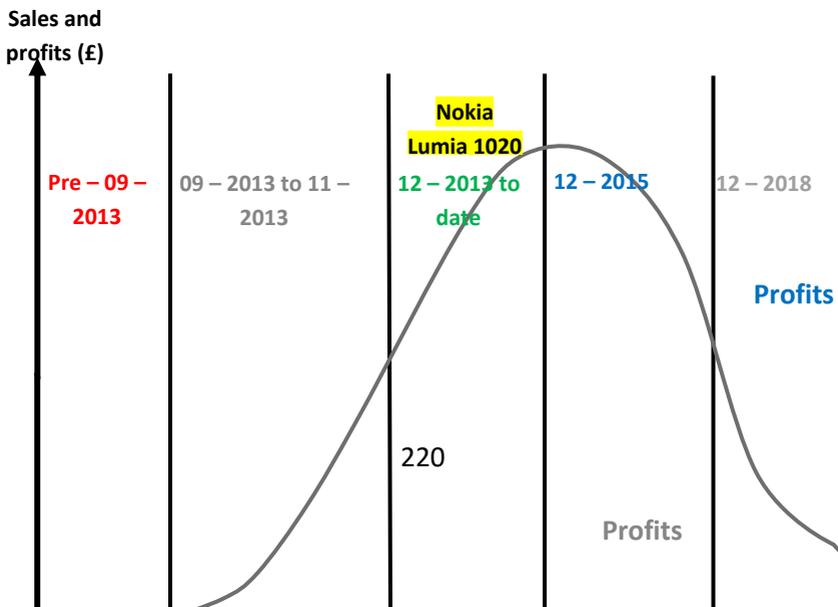
Figure 5 Three levels of Product

Source: Adapted from Kotler and Armstrong
(2014, p. 250)

Although an in-depth review of 30 expert reviews (see appendix) obtained from the Engadget review website captured the amazing quality of the Lumia 1020's camera and the battery life; photo shooting speed, loudness of the speaker, design issues, call quality and ecosystem (apps, accessories etc.) are some of the issues that dominated expert users' reviews. Nearly 100% of expert reviews captured the amazing camera of the Lumia 1020. However, a closer look at the reviews show that the device is seen more as a camera than a phone. Considering the issues voiced by these experienced smartphone users, it appears that the augmented element of the phone was overemphasized at the expense of the core and actual attributes that a mobile phone ought to possess. One reviewer puts it bluntly: "...the Lumia 1020 is a good phone with an excellent camera. I just don't think the camera is enough of a reason to recommend it at this price" (Engadget, n.d). Except for customers who love taking pictures, the Lumia 1020 will unlikely appeal to many users of smartphones because of the issues associated with the core and embodied levels of the total product offer. Additionally, since 29% of consumers stressed that apps' availability will play a key part in their smartphone choices (Mintel, 2014a), absence of several apps further reduces Lumia 1020's attractiveness to iPhone and Android phone users who may likely want to switch to Windows phones.

Product life cycle (PLC)

Product life cycle (PLC) is a popular tool that marketers use to track the life of a product from birth to death. Its underlying concept centres on the belief that products move through a sequential, predetermined pattern of development similar to that of biological organisms consisting of five distinct stages—development, introduction, growth, maturity and decline (Baines *et al.*, 2013). Whilst PLC presents practical problems such as difficulty “to forecast sales level at each PLC stage, the length of each stage, and the shape of the PLC curve” (Kotler and Armstrong, 2014, p. 297), it is a tool that helps managers to understand how products generally develop and when innovation is needed (Baines *et al.*, 2013). Hence, tracking the life of Lumia 1020 with this popular tool is not out of place. Figure 6 shows the PLC of Lumia 1020



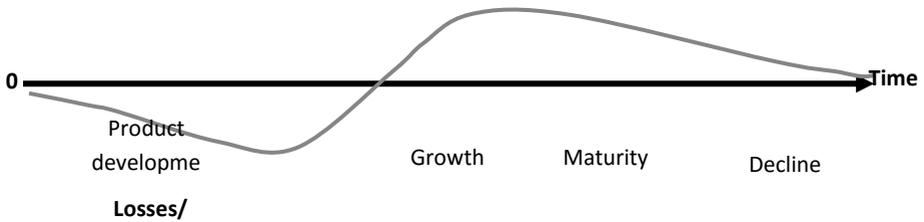


Figure 6 Product Life Cycle Model of Nokia Lumia 1020

Figure 6 shows that except for the product development phase, the timeframe plugged into the PLC model were subjective forecast of the anticipated life of the Lumia 1020 informed by the Mintel report. While the forecast periods cannot be completely said to be right due to shortfalls of the PLC model, it can be argued that the Lumia 1020 is at the growth stage in its life cycle because Mintel's (2013a) report shows that in the later quarter of 2013, revenues from smartphone sales increased by 2.4% even though Nokia posted 25% decrease in revenue arising from other products in the same period.

BCG matrix

The BCG matrix is a two-dimensional classification of products according to relative market share (cash usage) and market growth rate (cash generation) (Dibb, 1995). It is considered very useful for internal analysis and development of strategic marketing options with respect to resource allocation decisions (Aaker, 1998). Although the matrix has limitations (see Hofer and Schendel, 1978), it is widely cited in academic and popular discussions of strategy. While the matrix helps in development of plans which reflects the need of each business unit as well as portfolio of investments (Thompson and Strickland, 1993); the objective here is not to present a balanced portfolio of Microsoft's products because that is outside the scope of this paper. Rather,

where Lumia 1020 is likely to be in the matrix was identified to allow room for proper investment recommendations.

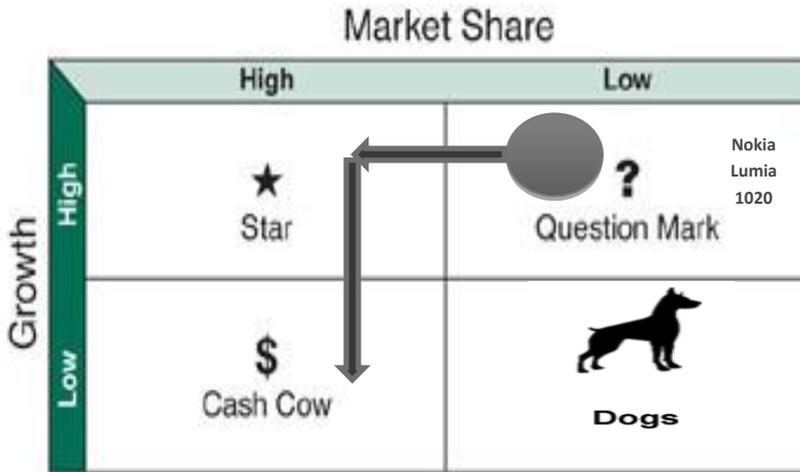


Figure 7 The BCG Matrix

Source: Adapted from Henderson (1970)

As shown in Figure 7, products with a large market share but slow growth are called ‘cash cows’. Those with large share and high growth are ‘stars’, while fast growth but relatively small market share products are classified as ‘question marks’. Finally, ‘dogs’ have slow growth and small shares. Whilst there is not unanimity as to what the dividing points on the two dimensions of the matrix should be, BCG favours 10% real market growth as the point of distinction between high and low market growth (Srivastava and Prakash, 2011). BCG views market share in terms of the ratio of the share held by the business relative to the share held by its leading competitor. A ratio of 1.0, indicating highest market share, is commonly considered the dividing line between high and

low share. Considering the growth in personal ownership of smartphones between January 2012 and June 2014 from 56% to 73% (see Figure 9), the market can be characterized as a high growth market. Further, Lumia 1020 is a Windows phone. The ratio of Windows to Android phones is 8:53 (0.15) (Intel, 2014b) which implies that the market shares of Windows phones are low. Consequently, it can be argued that Lumia 1020 is a ‘question mark’ (see Figure 7).

Critical analysis of buyer behaviours

Buyer behaviour can be contextualized in either business-to-consumer (consumer behaviour) or business-to-business (organisational buying behaviour) markets (Baines *et al.*, 2008), but in this paper, the former is explored. Consumer behaviour studies cognitions (thoughts), perception (how we see things), and learning (how we memorise things); all of which are fundamental in explaining how customers think and learn about products and services (Baines *et al.*, 2013). Understanding these processes and the factors that influence them are key to communication and strategic planning,

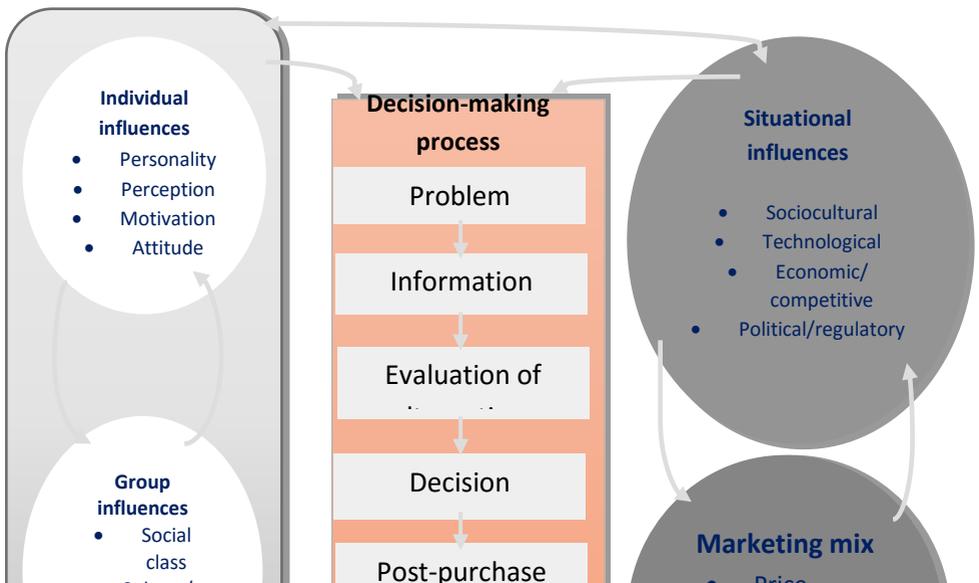


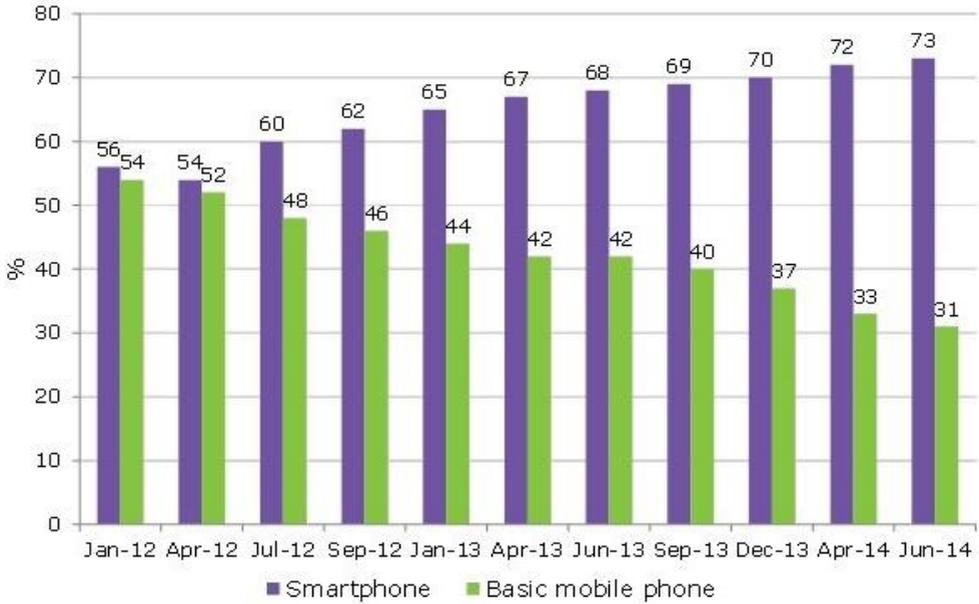
Fig. 8: Consumer Buying Decision-Making Process and its Influencing Factors

Source: Adopted from Brassington and Pettitt (1997, p. 88)

segmentation and targeting (Blythe, 2006). Figure 8 shows an integrated model of the consumers' decision-making process and the factors that influence it. The model shows that consumers pass through five stages (all of which are influenced by personal, situational, group influences and the marketing mix) in their buying decision process. The process starts with when a customer recognizes the need for a product (e.g., smartphone) and continues until the buyer has used the product. According to Khan (2013), information search is the second stage of the consumer buying decision process and it involves the consumer looking to build information on the product they are intending to buy. At the third stage, the consumer evaluates the attributes of the available alternatives while in the fourth stage, the consumer finally buys the product based on alternative evaluations made in the previous stage (Khan, 2013). In the final stage, the consumer evaluates the purchase based on their expectations (Khan, 2013). However, the time and effort devoted to the process depends on how important the as well as the product's cost (Boone and Kurtz, 2014). Lumia 1020 is a high-involvement product and it is expected that

decision relating to its purchase should take more time and effort and is also subject to a lot of influencing factors.

Figure 9 Personal Ownership of Mobile Phones in UK



Source: Mintel (2014d)

The behaviour of UK mobile phone users has recently undergone spectacular changes. For instance, mobile phone contracts are becoming increasingly popular (Mintel, 2014c). Additionally, there has been a shift from feature phones to more expensive handsets with the penetration of smartphones expected to drive volume and value growth at least till 2017 (Marketline, 2014). Figure 9 shows that ownership of smartphones continues its steady climb against basic mobile phones as 73% of consumers

have a smartphone (Intel, 2014d). Thus, the challenge for Microsoft is the ability to convince the untapped 31% to replace their basic phones with Lumia 1020 and the 73% to replace their handsets on regular or at least biennial basis. However, according to Intel's (2014e) report, Google's Android operating system continues to dominate the smartphone market with 53% of device owners using this platform while windows phone managed to notch only 8.1%, a share that is way below iPhone's share of 25%.

Research across different gender and age groups show that communication still remains the dominant reason people buy mobile phones irrespective of whether it is basic or smartphone (Abu-Shanab and Abu-Baker, 2014; Iqbal, 2010; Economides and Grousopoulou, 2008). However, customers also buy phones because its apps can be used to find information, make mobile payment, serve entertainment and photography purposes (Abu-Shanab and Abu-Baker, 2014; Gupta, 2013). The point made here is that whilst communication still remains the prime function of mobile phones, the device has progressed far beyond making calls and is expected to go further (Intel, 2012).

Segmentation, targeting and positioning strategies

“Market segmentation involves dividing a market into smaller segments of buyers with distinct needs, characteristics, or behaviours that might require separate marketing strategies/mixes” (Kotler and Armstrong, 2014, p. 204). Companies segment markets because they vary in their abilities to cater to different segments of the market, all customers' needs cannot be satisfied in the same way, and resources need to be tailored to the segment that yields the best returns (Blythe, 2006). Hence, product managers must decide the segment of the market that the company can satisfy better than competitors. Market information gathered on key customer-related, product-related, or

situation-related criteria play an important role in segmenting consumer markets (Baines *et al.*, 2013) because they are fed into the various segmentation basis. The different basis on which markets can be segmented include behavioural (benefits sought, purchase occasion, purchase behaviour, usage etc.), geographic (weather, culture etc.), demographic (age, gender, income etc.) and psychographic (lifestyle, personality etc.) variables (Blythe, 2006).

Users of smartphones buy the device because of some key benefits. Hence, the ‘benefits sought’ behavioural segmentation criteria (see Figure 10) is adopted to segment the market for Lumia 1020. Drawing insights from the product anatomy and consumer behaviour section, three major segments of smartphones can be distinguished according to the benefits which consumers sought: quality/apps, photography, and price/contract (see Figure 11).

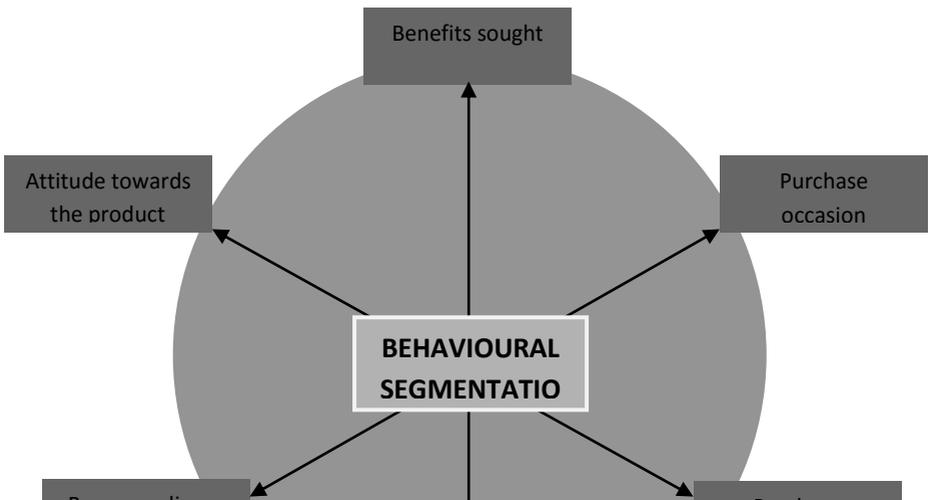
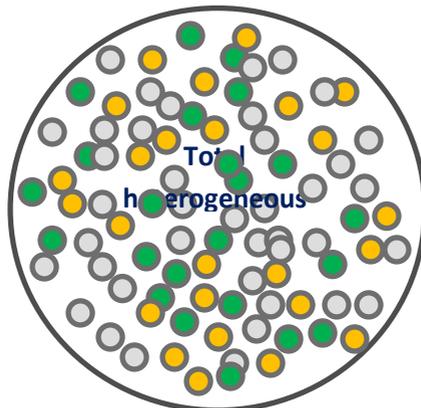


Figure 10 Behavioural Segmentation

Source: Adopted from Blythe (2006, p. 183)



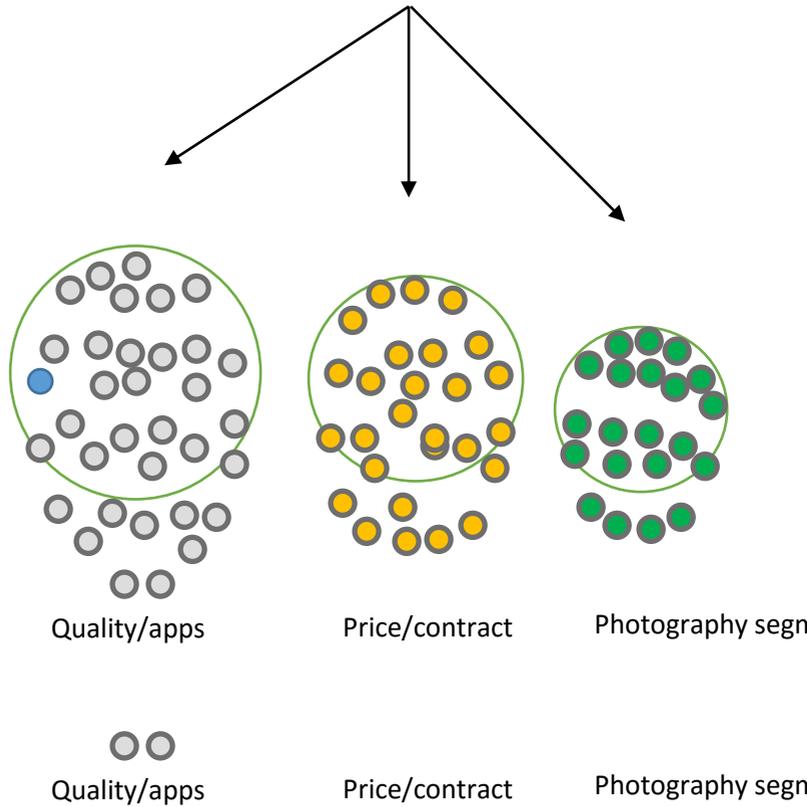


Figure 11 Segments of the UK Smartphones Market according to Users' Benefits

One key shortfall of segmentation is that it only identifies but does not provide an evaluation of each segment. Market targeting accommodates this evaluation. Market targeting is therefore the process of evaluating each market segments' attractiveness and selecting one or more segment to enter (Kotler *et al.*, 2009). According to Blythe (2006), the targeting process requires that a firm compare potential segments by estimating future attractiveness, resource demands and fit with firm strategy. The key three criteria for evaluating target markets are accessibility, substance, and measurability (Blythe, 2006). That is, a viable segment must be accessible to communicate with and offer products to, substantial enough to worth investing in, and measurable in terms of profit potential. Lumia 1020 has the potential to make an impact because 49% of Nokia phone users (most of whom own a basic phone) say they would consider a Nokia-branded smartphone (Intel, 2013b). Therefore, the market for Lumia 1020 is accessible. Additionally, the smartphone market is growing (see Figure 9). Hence, the market is substantial and profitable. However, the presence of competing smartphones like iPhone and Android phones imply that marketers of Lumia 1020 must be more fast-footed and adroit for the product to succeed. According to Kamarulzaman and Abu (2013), one of three categories of target marketing strategies can be pursued: undifferentiated marketing, differentiated marketing and concentrated marketing. They stressed that undifferentiated marketing ignores market segment differences by creating the same marketing mix for the entire market while differentiated marketing targets two or more distinct market segments with different marketing mixes. Concentrated marketing offers small companies the opportunity to focus their limited resources in an unimportant or overlooked market segment (Kamarulzaman and Abu, 2013). According to Baines *et al.* (2013), customized targeting is the fourth targeting strategy which a firm can use.

They stated that firms using customized targeting strategy develop marketing strategy for each customer.

Next step after selecting a target market is product positioning. Positioning is the act of designing a firm's product and image to occupy a distinctive place in the mind of the target customers (Kotler, 2003). It simply means what a product represents in the customers' mind. It specifically deals with how the physical/functional attributes of a product is communicated to the target market (Baines *et al.*, 2008). Although it is difficult at times to dislodge the customers' perception of an already existing product (Blythe, 2006), Blankson and Kalafatis (2004) empirically found eight non-mutually exclusive generic factors that can aid successful product positioning: top of the range, selectivity, brand name, reliability, service, value for money, country of origin and attractiveness. Obviously, it is impossible to emphasise all of these factors because such positioning will lack credibility. It is therefore important to select and stress the most important ones when positioning a product. According to Baines *et al.* (2013), understanding the complexity associated with the various attributes of the product can be made easier by developing a perceptual map – a visual representation of how a firm want customers to perceive their product(s) (Baines *et al.*, 2013).

Marketing mix recommendations and discussion

Marketing mix “is the combination of activities under a company's control that can be manipulated to achieve marketing objectives” (The Chartered Institute of Marketing (CIM), n.d)). Traditionally, it is known as the 4Ps – product, price, place, and promotion – and deals with an organisation's ability to provide the right product, at the right price, through the right outlets and promoting it in the right manner (CIM, n.d). Thus, organization's success depends largely on how optimal decisions relating to these variables are blended.

The multi-purpose nature of smartphones has totally redefined the way customers interact with the device. The struggle for market positions implies that the UK smartphone market has become very competitive. Although the smartphone market is still growing (Mintel, 2014d), it is very unlikely that Nokia Lumia 1020 will make the desired impact unless key marketing mix steps are taken. In this section of this paper, key marketing mix recommendations are discussed based on the previous sections.

First, since Lumia 1020 is at the growth stage in the life cycle, pricing to penetrate the different market segments is key. At present, users perceive the price as rather too high. One expert reviewer puts it thus: “...\$300 for a phone with a half-baked OS is a tall price to pay for photographic dominance” (Engadget, n.d). Another reviewer similarly stated: “...its \$300 on-contract price point slows its momentum down” (Engadget, n.d). Hence, price need to be reviewed downwards. There is also need to build awareness and interest in the market especially among smartphone laggards. Additionally, marketers of Lumia 1020 has an opportunity to upgrade many current owners of basic Nokia phones. Discounted trade-in deals (discount pricing and trade-in-allowances) are the most suitable strategy to target these set of customers. Further, Clifford (1971) claims that "vigorous" advertising and sales efforts are crucial for a product in the growth stage in the PLC, whereas Blythe (2006) specifically argued that promotional emphasis should shift from awareness creation towards encouraging repurchase and preference. Intensive distribution, product extensions, service and warranty can all assist in peddling the Lumia 1020 at this stage in its life cycle.

The BCG matrix analysis shows that Lumia 1020 is a ‘question mark’. Sustained cash infusions are therefore required to turn this product into a star and finally cash cow; otherwise, “it can become big dog if it doesn’t develop leading market position before the growth slows” (Henderson, 1973). Since, Lumia

1020's product anatomy shows that the augmented element of the product was overemphasised at the expense of the core and basic attributes of the product, turning the product into a 'star' requires that it should be redesigned to achieve a perfect balance across the three product levels. This is key in getting the product to appeal to different segments of the smartphone market.

Smartphone users seek three key attributes/benefits (quality apps, quality photographic features and reasonable price and contract terms) Thus, it is important to build Lumia 1020's targeting and positioning strategies around these attributes. The differentiated target marketing strategy is best suited for each of these segments. Lumia 1020 is perceived as a high quality product and the camera feature is also amazing but the app store is still poorly stocked and often receives recognisable apps months after Android or iOS whilst the operating system according to one review is half-baked. This will pose a switching difficulty for current Android and iPhone users who may likely want to switch to Lumia 1020. Microsoft will therefore stand a better position of attracting current Android and iPhone users if all the important apps and accessories are built into the device.

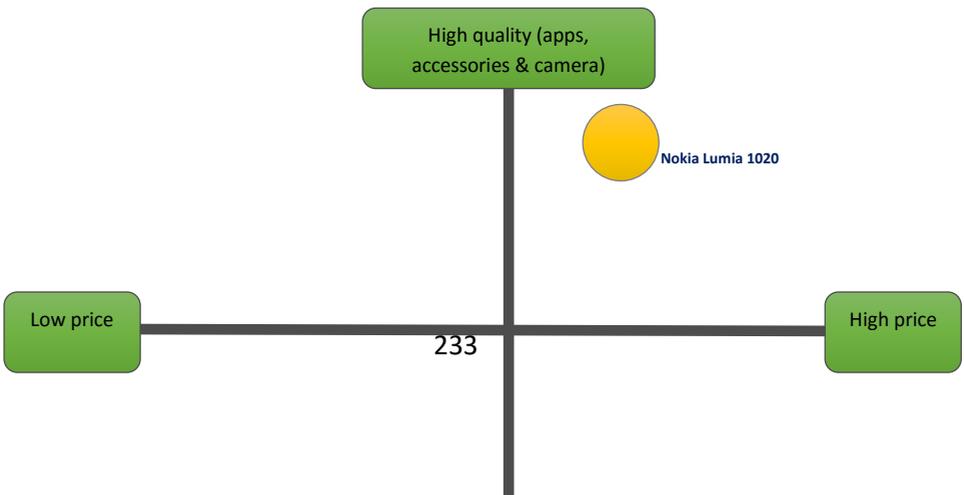


Figure 12 Perceptual Map of the Proposed Attributes of Nokia Lumia 1020

Building on the key attributes/benefits sought by smartphone users, Figure 12 shows a perceptual map of how customers will perceive Lumia 1020 if the aforementioned marketing mix recommendations are implemented. Although the map is supposed to compare competing products (Baines *et al.*, 2013), products comparison is beyond the scope of this paper. The visual representation of Lumia 1020’s proposed attributes was simply projected. Since Miller (2013) argued that the commercials, “*get in, get out, get on with your life...*” is not in tandem with the reality of windows phones because users normally end up spending a lot of time looking for the app they want with no real clear rhyme or reason as to the tile organization; Lumia 1020 should therefore be positioned as an affordable high quality smartphone with an amazing apps and camera features. Figure 13 shows Lumia 1020’s positioning strategies integrated to the marketing mix. Marketers of Lumia 1020 can decide to pursue selected few or a combination of the strategies highlighted in the framework.





Positioning Nokia Lumia
1020
Implementing chosen
image appeal to the

Figure 13 Integrated Positioning Strategy to Marketing Mix for Lumia
1020



Recommendations and conclusion

Success in the UK mobile phone market requires a great deal of marketing savvy because of the competitive nature of the market. This paper critically analysed the marketing of Lumia 1020 in relation to UK's marketing environment, buyer behaviour, segmentation, targeting and positioning strategies based on key

product-based theories and models. The results of the paper is summarised as follows:

- a. Lumia 1020 is at the growth stage in its life cycle. Hence, promotional emphasis should shift from awareness creation to repurchase and preference building. Additionally, the product also requires intensive distribution, service and warranty at this stage.
- b. Most UK mobile phone users still have basic phones. Trade-in allowances and discount pricing could be used to persuade current owners of basic phones to switch to Lumia 1020.
- c. Lumia 1020 is a 'question mark'. Thus, huge cash infusions are required to turn the product into a 'star' and finally into a 'cash cow' before growth slows. Additionally, the augmented component of the Lumia 1020 was overemphasised at the expense of the core and basic elements of the total product. A redesign of the product is required to achieve a perfect balance across the three product levels. Specifically, integration of important apps and accessories are required to lure current users of Android and iPhone into trying Lumia 1020.
- d. The price of Lumia 1020 is perceived to be too high for a product with photographic dominance. Since the product is at the growth stage in its life cycle, the price need to be reviewed downwards.
- e. Finally, Lumia 1020 should be positioned as an affordable high quality smartphone with an amazing apps and camera features.

It is concluded that Lumia 1020 will make greater impact in the UK market in the next 12 months if the abovementioned marketing mix recommendations are integrated into Microsoft's marketing scheme of policies. This paper contributes to marketing management theories by presenting a qualitative critical analyses of the anatomy of a brand that was launched in a highly competitive market environment. The findings from this paper

can form a sound basis for other companies marketing mobile phones in other countries (especially Europe) with similar business situations. The research context also provides a contribution. Firms marketing mobile phones in emerging/developing markets such as Nigeria and other African and Asian countries where competition is yet to hit equilibration can draw from the insights offered in this paper to place the sharp end of their brands' performances at the cutting-edge before competition gets more intense.

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Appendix: Summary of 30 Customer Reviews of Nokia Lumia 1020

No.	Review
1	The Lumia 1020 is the best Windows Phone we've used so far and offers the best camera in the industry, though it's a little difficult to hold comfortably.
2	Avid mobile photographers will love the Nokia Lumia 1020's exact controls, but casual users should stick to cheaper camera phones.
3	If you're cool with Windows Phone and you want the communication device in your pocket to take superior photos, definitely get this phone... You have to really, really care about your pictures though. Because \$300 for a phone with a half-baked OS is a tall price to pay for photographic dominance.
4	The first viable 41-megapixel camera phone, the Nokia Lumia 1020 for AT&T is an impressive feat, but it's big, expensive, and doesn't run Instagram.
5	That said, if you want the absolute best camera on a smartphone, then the Lumia 1020 is for you. ... You just have to be OK with hitching your wagon to Windows Phone.
6	Let's cut to the chase: the Nokia Lumia 1020 is the smartphone to beat when it comes to photography. Its camera is a serious bit of kit that, given the right conditions, will create exceptional shots.
7	At the end of the day, the Lumia 1020 is a good phone with an excellent camera. I just don't think the camera is enough of a reason to recommend it at this price.
8	The lag between shots is the big fly in the Lumia's ointment ... It's that, more than anything, that keeps the Nokia Lumia 1020 in its niche position.
9	With a 41-megapixel camera capable of taking phenomenal photos, the Nokia Lumia 1020 is the Windows Phone to beat.
10	..you either want a Windows phone or you don't - and a 41-megapixel sensor isn't going to change that for anyone...So, if you want a Windows Phone 8 device and desire the ability to capture mammoth, high-resolution photos, than the Lumia 1020 is the smartphone for you.
11	Let's cut to the chase here folks, this is hand down, without question, the absolute best camera phone on the market. ... However, its \$300 on-contract price point slows its momentum down, seeing that it's still widely viewed as a pricey thing.
12	The Lumia 1020 is simply the best camera phone on the market, and Nokia extends its leadership proudly once again with this flagship device.
13	The Lumia 1020 is a solid phone, with great hardware, amazing innovative camera technology and powerful messenger and office skills. It's a true Nokia destined to become a legend when it's probably too late. And that's why Lumia 1020 will be always The One That Got Away.
14	It's certainly the next great step in that direction, and indeed an excellent camera phone—the 5 Mpx images are fantastic—but a number of imperfections prevent the sensor from competing at the 41 Mpx level, which is the resolution Nokia advertises.
15	The Nokia Lumia 1020 is a slick, striking phone with a class-leading – if not entirely perfect – camera. However, if camera quality is not your number one concern, we consider the Lumia 925 or an even cheaper Lumia model, like the Nokia Lumia 620.
16	A simply stunning photos make the Lumia 1020 the ultimate cameraphone.
17	Nokia's Lumia 1020 is the best Windows Phone in the world. Period. It's not even close. ... But is being the best Windows Phone in the world good enough to compete

	with the best Android phones in the world and the iPhone?
18	The bottom line is that the Nokia Lumia 1020 is a superlative camera and a middling smartphone, punctuated by a big question mark hovering over the future of Windows Phone and its app ecosystem.
19	The Nokia Lumia 1020 is a nice upgrade to the Lumia 920 and a big upgrade to most smartphone cameras ... The Lumia 1020 is a tough sell at \$299, but the actual device sells itself for anyone willing to pony up the extra money.
20	Despite my quibbles, this is a very smart camera. About as good as you can get on a smartphone.
21	The Nokia Lumia 1020 is a very capable photo-taking device that delivers the best image quality of any smartphone.
22	Best phone for any enthusiast. It may not have the horsepower in a lot of the Androids, but those phones require so many resources and all too often have tons of bloatware. WP8 has most of the big apps with unofficial ones available for Instagram. It isn't Microsoft's fault that the apps aren't...
23	Hands down the best Windows Phone ever made. Incredible Camera, Crisp Performance and Nokia's unparalleled quality.
24	Best cameraphone out there. Period! :-D
25	It doesn't have the freaking mass of crapware as that of Apple store. Can this even be considered negative? Since I don't use too many apps, this should be a plus. But a negative is the lacking of third party native accessory for Nokia 1020. Yes, there are generic ones that will work. I would...
26	If your phone is your camera then the Nokia Lumia 1020 is a viable option.
27	The selling point of this phone is obviously the camera, but this is not the only good quality. It has an extra sensitive screen for easy use with gloves that I find great, even with a screen protector on it. The battery lasts a long time for how small it is. It has great sound quality, as...
28	This really is a stellar device. Fate put an iPhone 5S and the Lumia 1020 in my hand on the same day. I had been excited to play with both - but it was the Lumia that took the lion's share of my attention. I am VERY lucky in that I don't have to choose and will likely carry both - most of my...
29	Overall, we really what we see from the Lumia 1020. Nokia clearly wants the best smartphone camera on the market and it seems to have succeeded. The only thing that could keep the 1020 from being a true mainstream winner is its \$299 price tag.
30	We really, really like the Lumia 1020 as a device. Yes, it's more camera than phone, but the balance is a lot more even than before, and it will really appeal to all of those who want to make sure they get the best out of their everyday memories.

Source: Engadget (n.d).