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Each issue has a specific topic that is a subtopic of major journal coverage.

FREQUENCY

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JOURNAL HISTORY

The journal ***Annals of Spiru Haret University. Economic Series*** was founded in 2000 at the initiative of two professors from Spiru Haret University: professor Ph.D. Gheorghe Zaman – also corresponding member of the Romanian Academy and professor Ph.D. Constantin Mecu – one of the University's founders and vice-rector.

Between 2004-2010, the journal is headed by professor Ph.D. Constantin Mecu, as editor-in-chief, and associate professor Ph.D. Aurelian A. Bondrea, as deputy editor, both of them vice-rectors of the university.

In 2011, associate professor Ph.D. Aurelian A. Bondrea, rector of the university, takes over the presidency as editor-in-chief and leads the journal until present.

The ***Annals of Spiru Haret University. Economic Series*** was issued annually, once a year, starting 2000, until 2009.

Since 2010, the ***Annals*** have a new format, with a four-annual issuance exclusively in English, with both redaction and review conditions comparable to the most rigorous international requirements.

In 2007, ***Annals of Spiru Haret University. Economic Series*** obtained the B+ quotation from The National Council of Research in Higher Education in Romania, becoming a publication of real scientific interest.

Starting 2009, the review is indexed in REPEC, SSRN and Google Scholar and beginning with 2016 our Journal is under a process of rebranding, the new team trying to rethink the journal indexing strategy in international databases, suggesting a greater external visibility.

Along the years, in the journal pages, the members of the teaching personnel – professors, associate professors, lecturers and teaching assistants – active in six economics faculties and distinct specialty departments, as well as in the Central Scientific Research Institute, functioning within Spiru

Haret University, present the results of their scientific research. The journal also hosts many studies of professors, researchers or Ph.D. students from other universities and research institutes all over the world.

The subject of the publication firstly reflects the concern for the modernization of teaching economic science in University: marketing, management, finance, banking, accounting, audit, international economic relations, trade, business, tourism, administrative data processing, politic economy, commercial law, cybernetics, environmental economics, statistics, ethics in economics, insurance, advocacy & lobby, economic philosophy, econometrics etc.

In the published materials, there are analyzed theoretical and practical issues of edification and consolidation of the Romanian market economy, as well as the fundamental directions of the technical and scientific progress, the actual state and ways of its promotion in the Romanian economy, the issue of developing the new world economy, the directions of globalization and contemporaneous economic integration and Romania's participation to these processes. Also, there are hosted articles that refer to different aspects of economic phenomena from all over the world.

As a response to the public interest, the publication is sent to the libraries in Bucharest and Romania, as well as to other universities and economic faculties abroad.

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FOREWORD

Shanta Devarajan, who is the *Senior Director at the Development Economics – World Bank*, said recently, in a forecasting about global economic growth at the beginning of 2018, that currently there is a set of optimistic projections for economic growth around the world. Ten years after the global financial crisis, every economic region – from the U.S. to Europe to Asia, Africa, and Latin America – is seeing an uptick in growth. One reason for the optimism is that economic growth was surprisingly better than anticipated in 2017. Almost every growth forecast at the beginning of the year was revised upward by the end of the year. Global growth, projected by the World Bank to be 2.7 % in January 2017, was estimated at 3 percent in December, with expectation to be at 3.1 percent in 2018. Furthermore, stock markets are booming. And the factors that caused growth to be subdued in the past – a slowdown in investment and trade and low commodity prices – are rebounding. Consequently, developing country growth is forecasted at a robust 4.5 percent in 2018, accelerating to 4.7 percent in the subsequent two years. This growth is not just driven by China, although the country's economy is projected to grow at a robust 6.4 percent in 2018. Low-income countries' growth will rise to 5.4 percent in 2018, accelerating to 5.6 percent in 2019-2020, as metal and mineral prices strengthen.

At the same time, the *World Bank's Global Economic Prospects* estimates that potential growth – the pace at which the economy could grow if all factors were fully employed – is likely to slowdown in the future. Why? It is important to understand that potential growth is never directly observed: It is outside the frame. Therefore, the World Bank uses several observations to make this prediction:

First, *the slowdown in investment* over the past five years means that these economies' capital stock has not been growing as fast. ***Second***, in every region except Africa, *the percent of people participating in the labour force* is shrinking. ***Third***, *total factor productivity (TFP)* – a measure of the output generated over and above that attributed to labour and capital – has been slowing, initially in developed countries, and more recently in developing countries. If these estimates are correct, the slowing of potential growth can constrain how high and how long the current upsurge in growth can go.

Potential growth is a measure of the economy's capacity. Since the global financial crisis, the global economy has been operating below capacity. The "global output gap" has been particularly sharp for advanced economies, which were at the centre of the global financial crisis. Developing countries have closed the output gap more recently, although commodity exporters are still facing a significant shortfall. The combination of limited growth in the economy's capacity and acceleration of actual growth means that the output gap is about to close very quickly.

Coming very close to these trends, and helping to better understand the economic factors that influence the world economy, there is also the topic of our journal articles. Their topics are quite varied and start from forms of partnerships between universities and companies and end with problems related to the evolution of online tourism.

In the first article of this issue, the University sector in the national innovation system (NIS) is considered as one of the key players which links new knowledge with the industry for the purpose of diffusing new knowledge for economic and social benefits through commercialization of products, services, processes and other artefacts. This paper inquires the role of Sri Lankan universities in the innovation process by paying special attention on the strength of university-industry linkages. Responses from the industrial sector are obtained through surveys and interviews with respondents. The study revealed a positive trend in the higher education sector towards performing effective role in the future towards innovation. However, it was evident that these relationships still remained very weak. The industrial sector remains inward oriented with little intention to innovation, while universities still prioritize their traditional teaching role in higher education.

The study called *Budgetary Participation and Managerial Performance in Public Sector Organisations: A Study from Nigeria* investigated the impact of budgetary participation on managerial performance in public-sector organisations in Nigeria. A questionnaire was used to obtain the opinion of 174 managers (unit and departmental heads) in five public-sector organisations located in Abuja, Nigeria's Federal Capital. Results from statistical analysis (descriptive, factor analysis, Kruskal-Wallis tests, correlation and regression) show that there is high level of budgetary participation by managers in public-sector organisations in Nigeria. Although budgetary participation was observed to positively and significantly impact the managerial functions such as planning, investigating, co-ordinating, supervising, evaluating, and staffing, it exerts the most on planning. The impact of budgetary participation on managerial performance appears to be moderate. Whilst it is desirable for public-sector organisations to adopt sophisticated budgeting techniques, the study advocates for employees' motivation and deeper involvement in budget matters as a way out of the traditional budgeting quagmire that public-sector organisations are characteristically bedevilled with.

In their paper, entitled *Effect of international financial reporting standard on corporate performance of selected banks listed on Nigeria stock exchange*, the authors, Elosiuba, J. N. and Emma Okoye, emphasize that in the light of globalisation, where foreign investment has become trendy, comparability of financial reports of Nigerian firms and those of other firms across the world has become a concern. Nigerian firms have mandated to adopt the International Financial Reporting Standard (IFRS) is their financial reporting. This study has examined the effect of the IFRS adoption on the reported performance of Nigerian banks listed on the Nigerian Stock Exchange. Eight (8) out of the fourteen (14) quoted banks were selected for the study. Four indices of performance employed in the study are profitability using the Return on Equity, Liquidity using total deposit to total loan, loan grants and then market value measured by Price earnings ratio for the period (2011 and 2012). 2011 represented GAAP era while 2012 stands for IFRS adoption. A comparability index for the banks was computed using the Excel Spreadsheet for each of the banks on each variable. Then the One Sample Test was employed for the analyses. The mean was used to answer the research question while the t-statistics tested the hypotheses. The results showed that mean values for profitability, liquidity and market value are greater in the GAAP era (2011) than in the IFRS period (2012), while loan grant has higher for IFRS period (2012). The t-tested indicated none of the variables had significant effect. Thus, the study concluded that IFRS adopted does not have significant effect on bank performance reported in 2011 and 2012. This study recommends the use of IFRS for all firms as well as incorporation of IFRS guideline in professional training.

The study about the *Effect of Foreign Exchange Rate Fluctuations on Nigerian Economy* investigated the effect of exchange rate fluctuations on Nigerian economy. The fixed and floating exchange eras were compared to know the exchange rate system in which the economy was fairly better. The time period covered was 1970 to 2012. The study employed the ordinary least square (OLS) multiple regression technique for the analysis. The coefficient of determination (R^2), F-test, t-test, beta and Durbin-Watson were used in the interpretation of the results. The results revealed that about 85% of the changes in macroeconomic indicators are explained in the fixed exchange era. In the floating exchange era, 99% was explained, while the whole periods has 73% explanatory power, hence the floating exchange era (1986 to date) is more effective in explaining economic trends in Nigeria. Also, exchange rate has significant positive effect on GDP during the fixed exchange rate era and negative effect during the floating and all-time eras; inflation has insignificant negative effect on GDP during the fixed exchange era; significant effect in floating era and significant negative effect in the all-time period; money supply has insignificant negative effect GDP in fixed exchange era; and significant positive effect during the floating and all-time period; and oil revenue has significant positive effect on the GDP in all the exchange rate regimes (floating, fixed and all-time) in Nigeria. The study thus conclude that exchange rate movement is a good indicator for monitoring Nigerian economic growth.

The study entitled *Effect of monetary policy on economic growth in Nigeria: an empirical investigation* investigated the effect of monetary policy on economic growth in Nigeria. The natural log of the GDP was used as the dependent variables against the explanatory monetary policy variables: monetary policy rate, money supply, exchange rate, lending rate and investment. The time series data is the market controlled period covering 1986 to 2016. The study adopted an Ordinary Least Squared technique and also conducted the unit root and co-integration tests. The study showed that long run relationship exists among the variables. In addition, the core finding of this study showed that monetary policy rate, interest rate, and investment have insignificant positive effect on economic growth in Nigeria. Money supply however has significant positive effect on growth in Nigeria. Exchange rate has significant negative effect on GDP in Nigeria. Money supply and investment granger cause economic growth, while economic growth causes interest rate in Nigeria. On the overall, monetary policy explains 98% of the changes in economic growth in Nigeria. Thus, the study concluded that monetary policy can be effectively used to control Nigerian economy and thus a veritable tool for price stability and improve output.

The study *Analysis of the Determinants of Dividend Payout of Consumer Goods Companies in Nigeria* examines determinants of dividend payout of consumer goods companies listed on the Nigerian Stock Exchange. The Nigerian Stock Exchange has 28 listed consumer goods companies. Purposive sampling technique was used and a sample of nine consumer goods companies, for a duration of ten years, from 2006 to 2015, was selected. Secondary data was collected from the audited financial statements of the selected companies' websites. Dividend payout ratio was the dependent variable while independent variables were market value, profitability, financial leverage, firm size and previous year dividend payout. Descriptive statistics and multiple regressions were used. Results showed that firm market value has significant positive effect on dividend payout; firm profitability has positive, but insignificant effect on dividend payout; firm leverage has negative and insignificant effect on dividend payout; firm size has negative and insignificant effect on dividend payout; and previous year's dividend has significant positive effect on dividend payout. The study thus concluded that market value and previous year's dividend are the major determinants of dividend payout in consumer goods sector in Nigeria.

In their paper called *General Considerations on the Impact of Property on the Economic and Social Status of People*, the authors are talking about property which is indissolubly linked to people's lives, forming part of it, being a permanent problem and occupying a particularly important place in economic, social, political and philosophical science.

Through the structure outlined in this short study, we are also trying to analyze the impact of ownership on people's economic and social status, relative to the concept of property and economic freedom.

Therefore, the impact of property as a multiple social relationship on the social status of people is relevant, namely the link between property and economic freedom, property and social justice, property and equality/inequality in society.

The subject of the article *Self-Government Employee in the Polish Defence System on the Example of Mazowieckie Province*, written by *Jakub Adamkiewicz*, is about the organization of local government authorities in the implementation of tasks related to security and defence. Attention is focused on issues of employment and organization of work. The tackled issues relate to adequacy of the knowledge and experience of employees to the extent of their professional duties, adapting the number of employees to the scope of tasks and public opinion on the activities of security offices. The article is based on the results of the qualitative and quantitative studies carried out within the framework of the project "Local self-government in Polish non-military defence system" conducted by the Department of Security and Defence Systems of the Faculty of Logistics in Military, University of Technology, during 2015-2016, in Mazowieckie Province.

The study of prof. *Haradhan Kumar Mohajan* aims to investigate the food production and poverty reduction in Bangladesh in brief. Although the country faces various problems for the economic progress since its independent in 1971, in the last forty-eight years the increase of food production and poverty reduction in the country became remarkably. Bangladesh is a densely populated developing country in the southern Asia. The Government of Bangladesh is trying efficiently to reduce poverty of the country. In Bangladesh, about 20% of the populations still live below the poverty line, heavily undernourished, with inadequate access to safe and nutritious food for a healthy life. The data of the study were collected through the secondary sources of the country. In Bangladesh, from 2000 to 2005, income poverty reduced from 48.9% to 40.0%, from 2010 to 2016 it was reduced from 31.50% to 20%, and in 2018 it is expected to decrease by 16%. An attempt has been made here to show the ways to increase more the food production and poverty reduction of the country.

In her study entitled *Study Regarding the Legal or Judicial Rehabilitation of Persons Engaged in Economic Activities,* professor *Amelia Diaconescu* is talking about the consequences derived from any sentence pronounced for a crime committed by a major person pertain to the constitutional law, administrative law, civil law, family law, labour law or commercial law and consist in legal effects of criminal or extra-criminal nature, perpetual or long term ones which result from the fact of the criminal conviction itself and they place the convict in a disadvantageous situation.

Having a legal tool character by which the legal consequences resulting from a conviction cease or, in a larger sense, a legal tool character by which the ex-convicts are legally reintegrated in the society, its effects consist in the same.

In her study called *Future Modern Retail Solutions and Shopper Experience,* professor Viorica Jelev is talking about artificial intelligence and automation that will radically change the world. She says that if we want society to benefit from these changes, we need to properly prepare ourselves through an education tailored to new times. Until the last century, it was the manufacturing industry that created jobs. But today, as a result of the existence of artificial intelligence, robots, the manufacturing industry is no longer the main driver of job creation, but the service industry.

As competition grows, brand manager imagination needs to work, and sales growth solutions need to focus on customer focus attention. It is a difficult task if all brands offer discounts in their shops from the malls and the differentiation notice is brought to the attention of specialists who offer solutions for any kind of fun for customers. The article aims to present the evolution of world trade in recent years and the various ways of diversion invented by retailers to keep customers in store chains a longer time in order to buy more.

The conclusion of this article will focus on the idea of future trade based on modern technology inside stores, which will lead to profound changes in customer buying behaviour.

Bogdan SOFRONOV, in his paper entitled *The Impact of the Online Environment on Tourism*, is talking about the online tourism that is part of the e-commerce and unites some of the fastest growing technologies, such as communications and information technology, the hospitality industry, and strategic management / marketing / planning.

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Online tourism activities involve tour operators, travel agencies and other entities with tourism-related interests in the virtual space through a dedicated portal. The phenomenon itself has implications for the tourist services consumer.

The Internet has revolutionized the travel industry both as a source of information and as a sales channel. Online marketing, photographs, and consumer reviews are bringing destinations and attractions to the screens of potential travellers around the world. The ease with which a customer can review and compare travel options opens up new markets for both large and small businesses and the ability to confirm prices and purchase services online benefits travellers and businesses alike.

As we have seen, all the articles are interesting and deserve to be appropriated by those who are interested in understanding the specific issues of the economy.

If you liked our articles, please visit our website. If you want to write an article in our journal, we are waiting for you to expose your ideas in new studies published by us.

Finally, hoping that you found interesting the Issue 1/2018, I strongly invite you to address your comments and suggestions at ashues@spiruharet.ro and, of course, to submit your own paper via the online submission system.

Research is the breath of the future. Let's shape the world together!

Associate Professor Elena GURGU, Ph.D.
Deputy Chief Editor

ACADEMIA PAPERS

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UNIVERSITY-INDUSTRY PARTNERSHIPS FOR INNOVATION: SRI LANKAN EXPERIENCES

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Abstract

The university sector in the national innovation system (NIS) is considered as one of the key players, which links new knowledge with the industry for the purpose of diffusing new knowledge for economic and social benefits through commercialization of products, services, processes and other artefacts. This paper inquires the role of Sri Lankan universities in the innovation process by paying special attention on the strength of university-industry linkages. Responses from the industrial sector were obtained through a surveys and interviews with respondents.

Data presented and analyzed through descriptive statistics using summery statistics and figures. Social Network Analysis (SNA) was employed to determine the strength of the networking relationship among the universities and the firms' qualitative data were analyzed employing the method of content analysis.

The study revealed a positive trend in the higher education sector towards performing effective role in the future towards innovation. However, it was evident that these relationships have still remained very weak. The industrial sector remains inward oriented with little intention to innovation, while universities still prioritize their traditional teaching role in higher education.

Keywords: *innovation; university-industry relationships; NIS; networking; Sri Lanka.*

JEL Classification: O_{32}

Introduction

The systematic view of innovation at the national level has attracted much attention from the latter part of the 1980s and it is a popular research theme all around the world at present. Freeman (1987), Lundvall (1992) and Nelson (1993) are the renowned early contributors to the perspective of NIS. This concept is focused on the inter-relationship and inter-dependencies among the major actors of national innovation system that work to create, develop and diffuse new knowledge mainly for the commercialization of new products, services and processes. Government and government institutions, universities and research institutions, and the firms that operate in different industries are considered as the three main actors and they are expected to establish an inter-relationship among themselves towards better innovative performance as explained in NIS literature.

Traditionally, universities were responsible for providing facilities for higher education mainly and engaging in basic research activities, resulting in being known as teaching facilities. Even at present, this remains unchanged in many developing countries. Moving from the traditional teaching and researching functions, the role of the universities to promote innovation in knowledge-based societies has been emphasized in the Triple Helix model [Etzkowitz & Leydesdroff, 2000]. These authors stressed the role of universities in technology and knowledge transfers through their direct contribution to industry to create marketable products and services. Chesbrough (2006) further confirms this idea with the open innovation model. The open innovation model highlights the importance of the knowledge spill in and spill over for the successful innovations, hence encourage firms to maintain successful linkages with the innovation actors of the economy such as universities and other R&D firms for the creation and commercialization of innovation successfully.

As a result, there is a growing need to link university activities with the interdisciplinary approaches of problem solving in the industries through a new institutional approach, as one of the major cornerstones of modern innovation systems [Galli & Teubal, 1997 and Perkmann & Walsh, 2007]. Hargadon (2002) has discussed the importance of linking the knowledge created through research and development activities to the introduction of innovation by the industry. The practices such as university-industry collaborative research centres, contract research and consulting [Perkmann & Walsh, 2007], facilitating students to acquire practical experience [Klevorick et al., 1995] and sharing university infrastructure with industry for developing innovations [Galli & Teubal, 1997] are some of the new roles suggested for the university system for mutual benefits. Munari and Toschi (2011) have emphasized that there is a high possibility to find initial capital through venture capital firms for a new start up business idea if it is a result of a university-industry collaborative research work. Therefore, De Silva et al. (2012) have studied the entrepreneurial role of academics in Sri Lanka paying special attention to universities specialized in science and technology and found that the traditional role of the university academics is dramatically changing. Accordingly, more than 50% academics of the university system in their sample had already engaged with entrepreneurial activities, even starting up their own ventures while some are still inward oriented single role players.

This is an attempt to review relationships existing between universities and firms and the role of universities in the NIS of Sri Lanka from the integrative and collaborative perspectives. In addition, this study has the intention to critically review the role of universities in Sri Lanka paying attention on networking relationships with industries. It emphasizes the importance of stronger interactions with the business sector through the establishment of interface units such as incubators, business support services and consulting units, and joint scientific research and technology development programs. Further, the role of universities in terms of collaborating with the government and related institutions towards making policies, rules and regulations is also focused upon.

University system in Sri Lanka

The university system in Sri Lanka has been restructured through the No. 16 University Act of 1978, vesting the power to the University Grants Commission (UGC), as an apex body of the university system, to plan and coordinate university education, allocate funds to Higher Educational Institutions (HEIs), maintain academic standards, regulate and administer HEIs and handle admission of students to HEIs. There are 15 national universities and 3 campuses directly governed and funded by the UGC and Sri Lankan government. Although the state universities are dominant in the higher education sector in Sri Lanka, several private higher education institutions have also been incorporated and started their operations in the recent past, with the support of Sri Lankan government's new policy.

As presented in the UGC statistics book (2015), the expenditure in university education as a percentage of government expenditure was 1.42 in 2012 and it had been raised up to 1.77 in 2015. The average student's per capita cost in university education was Rs. 246,663 in 2012, and it had been increased to Rs. 384,612 in 2015. Total employment in the entire state university system was 17,172 in 2015.

The student–teacher ratio in the Sri Lankan university sector was 17.8 as in 2015. Total number of new admissions in state university education was 25,643 in

2015. Table no. 1 shows the statistics of university admissions based on the main four streams of the courses as categorized by the UGC. In the same year, 29,545 students have graduated in their first degrees.

Table no. 1. Students Allocation in Academic Years 2013/2014 and 2014/2015

Subject Stream	Admission Year	
	2013/2014	2014/2015
Arts	8,227	8,617
Commerce	5,225	5,299
Physical Sciences	5,280	5,287
Biological Sciences	6,376	6,316
Other	92	124
Total	**25,200**	**25,643**

Source: Survey Data, 2015

Table no. 2. Teachers in the State Universities of Sri Lanka in 2015

University	Number of Teachers		
	Professors	Senior Lecturers	Lecturers
Colombo	107	263	165
Peradeniya	135	413	219
Sri Jayewardenepura	85	314	140
Kelaniya	119	283	144
Moratuwa	45	189	101
Jaffna	32	197	160
Ruhuna	73	250	151
Eastern	5	118	69
South eastern	-	77	49
Rajarata	9	86	108
Sabaragamuwa	10	113	75
Wayamba	12	76	63
Uva Wellassa	-	38	60
Visual and performing arts	11	55	42
Open university	21	145	130

Source: University Statistics Book, 2015

Highly qualified and experienced academic staff employed in the state university system in Sri Lanka is considered as a major strength. Teaching staff refers to the lecturers, senior lecturers and professors. Table no. 2 presents the composition of academics in universities in 2015.

The total number of teaching staff in higher educational institutions reveals that there were 687 professors, 2,756 senior lecturers and 1,756 probationary lecturers in 2015. The grand total was 5,199 academic members in the system. These data prove that the university education sector in Sri Lanka is very strong and capable of producing new knowledge.

The role of Universities in NIS

The attention on the role of universities in the NIS of a country has been continuously increased. This is a result of popularization of findings of university research activities in the processes of development of new products, services and technologies introduced by the industry. This has increased the importance of multi- and interdisciplinary research and development. Further, it has strengthened interrelations for the purpose of industrial applications of basic research activities. The early research on NIS concerned technological innovation process as the core on firm activities in the beginning of 1990s. According to Lundvall (2010), early research models attempted to measure firms' innovation performance in terms of new products developed, linkages maintained between firms and other actors in the NIS. This also includes the capability of a firm to absorb technologies developed by knowledge creators. In recent scholarly works, the specific role played by other actors, such as governments and universities is also emphasized. Government role is defined in relation with creating policy incentives, while the universities role has been linked to conducting research. Therefore, the triple actors' model named "Triple Helix" emerged to give a deeper understanding on the relationships among these actors [Etzkowitz & Leydesdorff 2000]. This model opened up an alternative avenue for NIS studies by addressing knowledge commercialization though licensing, as well as through starting spinoff companies linked to the universities. The traditional role in teaching and research of the universities was considered as their first priority. Transferring the knowledge to industries and society began to be considered as the next priority. The third priority was the stream combination of first and second priorities. These three modes of streams require specific policies and resources to ensure the effective functioning for a strong NIS.

As a part of university role it needs to develop models, marketable ideas and also transfer those effectively to the industry for commercialization. Triple Helix

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concept emphasized the necessity of university-industry-government interactions for these fruitful modes of streams. Identifying the role of universities in the process is a bit difficult task. However, it can be identified as engagement in joint research activities together with industry firms, transferring new products to industry, sharing infrastructure, mobility of high-trained research and development personnel and visiting lecturing for industry etc. Universities distribute knowledge via teaching and improve the stock of human capital. Apart from that, university broaden the knowledge via researching. Without satisfying the above, they need to transfer the generated knowledge to society by collaborating with the industry. This category of activities is the results of the first two functions that are education and research. Third stream has not yet been a core function in the same way as the first two streams, but an increasing attention has been given to this aspect. Today, universities have to play an active role in transferring knowledge, science and technology development to useful innovations all the times. In the global context, all national, regional and local levels are motivating the "third stream", which is describing the collaborative role of universities and industries. Currently, university involvement for the innovation-based development is much more appreciated than earlier [Geuna & Muscio, 2009].

Eminent universities in the world have shown their interest in engaging in all three missions. They are trying to excel, as well as to exploit and create strong connection among those missions that are teaching, conducting research and technology transfers [Van Looy et al., 2004]. The role of modern universities has been recognized as to create and introduce potential innovations for the requests of the societies. This requires engaging in basic research activities mainly since those are characterized by high uncertainties in market and technological successes and long-term impact visibility. Hence, there is a tendency that private investors are trying to stay away from basic research. It has become a key function of the universities and public research institutes generating science-based knowledge as a result of the reluctance of the private sector firms. In addition to the formal relationships, which can be recognized easily, there are countless informal relationships that relate to innovation processes, knowledge transfer, and industrial science-based networks, whether personal or organizational. Knowledge exchange among firms and research institutes emphasizes the importance of informal relationships and flows of human capital. According to Chesbourgh (2003), science and technology laboratories from universities need to be available for open innovation projects, which are closely monitored by companies who engaged in those research and development activities. Researches with more academic orientation reveal appropriate methodologies required frameworks that can be

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utilized in applied researches engaged by firms in their own R&D facilities. Depending on the findings of scientific researches, firms can develop a better foundation for their technological landscapes in search of inventions for the future. Based on this foundation, they are allowed to foresee future innovations, evaluate those from different aspects and transform those to successful commercialized innovation [Rosenberg, 1990; Fleming & Sorenson, 2004].

Many countries are searching for better policies to create strong and fruitful collaborations among universities and industry. This policy formations and applications have created a value for university-based research and hence, transferred those to successful innovation boosting economic performances [Cohen & Noll, 1994]. Accordingly, those policy initiatives have created common premises for the universities to be able to help the industry-led innovation. Triggering potential deliverable innovations for commercialization through this support and sharing mechanism is the main focus in this research paper.

NIS in developing countries

Recent studies have addressed the condition of NISs in developing countries. Accordingly, there is a limited presence of required institutions in many developing countries [Intarakumnerd et al., 2002]. Further, they have pointed out that industrial innovation in many developing countries is highly informal and unsystematic. Innovations in those countries are not the results of formally articulated through conscious engagements in R & D activities. Subsequently, it has been emphasized that the dominant cultural patterns of these developing countries do not appreciate the importance of scientific knowledge and technological innovation. Hence, it is concluded that NISs of developing countries are less developed. These systems have not much contributed for the institutional and technological properties required for modern economic growth. It is necessary to understand the way in which the innovation process is operating with current economic position and the changes expected within the country. These should be studied in line with the context of the economic development. The studies in NISs should be interconnected with the country's economic and institutional development and growth. Newly industrialized countries such as South Korea, Taiwan have paid attention to strengthening their NIS and were able to acquire a great economic growth. The developing countries need to pay considerable attention on enhancing their strategic capacity for innovation in the government level, institutional level, educational level etc. Comparing major inputs of the NISs in developing countries with those of developed countries, one should note that capital accumulation, which facilitates knowledge creation and learning, is significantly higher in developed context, thus resulting in strong NISs. It can be concluded that innovation is the results of the collaboration between societal activities and findings of the science and technology initiatives. However, innovation does not count only as a result of technology creativeness. Most specific regional, social and economic factors affect effective innovations that need to be developed within countries. Therefore, the understanding of innovation and NIS diverges from place to place. The more the developing countries need to fill this gap existing in the NISs learning from developed, newly industrialized countries, and the more they need to grasp the benefits of increased economic performances.

Methodology

This study employed mix methodology to understand prevailing network relationships among the industry and the university sector in Sri Lanka. First survey was conducted to collect data from industrial sectors by means of structured, as well as open-ended questions to reveal their attachment to the university sector towards innovative activities in their organizations. According to the database available in Department of Census and Statistics of Sri Lanka, 280 SMEs were selected randomly from 8,734 recorded establishments in the Western Province of Sri Lanka. SMEs have been selected for study because many inclusive innovations appear in this informally limited resource sector in every economy. The survey instrument – the questionnaire – used in the study was developed based on innovation surveys conducted by the European Union (CIS), African countries (NEPAD) and the National Science Foundation (NSF) in Sri Lanka with the required modification to reveal network relationships maintained by the SMEs with other innovative actors. The data obtained through the survey were confirmed and tested through the face-to-face type focus discussions conducted with 15 SME owners.

The second survey was designed to collect data from the university point of view. All the representatives from different universities, faculties, study departments and units were considered as a unit of analysis of the study. The deans of faculties and the heads of departments in the government universities in Sri Lanka were included in the survey population. There are 15 national universities with 80 faculties, 3 campuses and 494 academic departments in the entire university system and all were taken as the sample of this study. At the initial stage, a questionnaire was sent to all the deans of the faculties and heads of departments both via mail and e-mail and was followed by extensive assistance and guidance given by the data collection team through telephone discussions, appointments or meeting et cetera.

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Amidst time limitations and non-responsiveness, there were 104 responses, at the response rate of 18 per cent, from 24 Deans of faculties, 77 heads of departments, which was sufficient to the analysis. Two responses remained unidentified due to insufficient information.

In addition to the second survey conducted, the role of universities in promoting innovations was revealed through in-depth interviews conducted with university Vice Chancellors and high officials in the University Grants Commission. Seven Vice Chancellors were interviewed out of fifteen in the Sri Lankan state universities. A pre-prepared interview guide was used to ask open-ended questions and responses were written and recorded appropriately. The interviews lasted more than an hour to allow free and real disclosure of ideas about the contribution of the university sector to promoting innovations in the company. UGC statistics, published periodicals and universities' web pages were accessed as secondary data sources.

Data were analyzed through both quantitative and qualitative techniques. Mainly, the survey results were tabulated and analyzed through the methods suggested in descriptive statistics, with the help of the Statistical Package for Social Sciences, 22.0 version. This study has limited its data presentation and analysis only to reveal the networking relationship between the university sector and the industry represented in the sample. Qualitative data were analyzed through methods such as critical reviewing and content analysis to make a realistic picture on the partnership between two sectors concerned herewith.

Data from the faculties and departments in the Sri Lankan university system were analyzed to reveal their existing relationships with other universities, science and technology research institutions and the firms in the industry and also to illustrate and measure the strength of relationships using Social Network Analysis (SNA), a powerful method to image the social realities. For the purpose of summery calculations and drawing graphs, the SNA, NodeXL version 1.0.1.350, user friendly software was used.

Results of the study

First Survey: As a result of personal involvement in the data collection process, 145 completed questionnaires were collected in the first survey of the study. The size of the sample was sufficient, as mentioned in a similar World Bank study (2009), with the sample size for a large population of 120 and was rated 7.5% accurate and 90% confidence. Even though there were 145 completed survey questionnaires, 25 questionnaires had to be removed from the analysis, as these respondents have not provided any information about the firms' attachments and linkages with the university system. The sample was consisted with 120 responded firms distributed in four main industries as in the planned population frame. Namely, they are manufacturing of food products and beverages; manufacturing of textiles; manufacturing of wearing apparel, dressing and dying; and manufacturing of rubber and plastic products. The main four industries contributing to the GDP of the country were concerned to design the sample in the Western Province of Sri Lanka. There were fifty-six firms engaged in manufacturing food products and beverages, while twenty-eight firms operating in wearing apparel industry. There were fifteen firms engaged in manufacturing rubber and plastic products and sixteen firms were engaged in manufacturing textiles. The remainders (five firms) were undertaking their business in other related manufacturing industries such as manufacturing wood products and furniture, and manufacturing food processing machinery and equipment.

To address the main objective of the study, the responses were summarized and it was discovered that just only 18 organizations (out of 120) had some kind of relationship with the university sector. All other 102 organizations revealed that they do not have any kind of relationship with the formal university sector in Sri Lanka. It seems that these organizations are staying far away from the university system and 35 organizations clearly mentioned that they do not have an understanding about the university sector and the support, which can be obtained from the university sector for promoting innovations within their firms. Further, it was understood that they believe that the university is responsible for just producing graduates and their graduates match the large organizational requirements, but not those of the SMEs. However, the 18 organizations that have good relationships with universities showed their interest in strengthening their ties for further improvements of their products and processes through innovative solutions.

The importance of the university support lies in seven areas, namely (a) conducting research activities for the firm, (b) providing required training, (c) sending resource persons for in-house training organized by the firm, (d) providing opportunity to participate in education programs conducted by the universities, (e) allowing to use university laboratory facilities and consultancy for R&D activities, (f) providing infrastructure facilities such as office spaces, library, and (g) providing management consultancy. Table 3 presents the responses of the firms obtained in a Likert scale on the importance of university facilitation and support in the specified seven key areas.

Irrespective of the present level of relationships maintained, the respondents were advised to provide responses for the above facilitation and support services that can be provided by the university sector. Figures 1 to 7 show the percentages of responses shown in Table no. 3.

Table no. 3. Importance of Facilitation and Support by Universities

Facilitation or Supporting Program	Degree of Importance				
	1 (Low)	2	3	4	5 (High)
A. Conducting R&D activities	51	5	6	9	27
B. Conducting programs in the universities	53	7	8	9	22
C. Invite resource persons for training programs	54	8	7	12	17
D. Participating in the academic programs	59	10	3	8	18
E. Providing technical and laboratory support/ advice	48	7	9	10	25
F. Providing infrastructure support	50	10	4	9	22
G. Providing management consultancies	50	11	8	6	22

Source: Survey Data, 2014

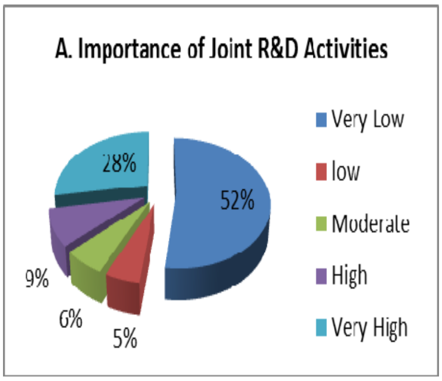

Figure no. 1. Importance of joint R & D

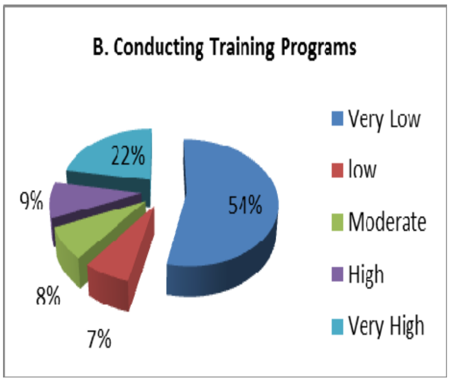

Figure no. 2. Conducting training program

According to the presented data in the above graphs and Table 3, the answers of the firm confirm that the importance of the facilities and the support given by the university system for the innovation and the development of the business has been recorded as very low. Percentages for the importance of the university facilitation and support are shown in graphs and prove that it varies in between 49% and 60% in the 'very low' rankings for all seven areas tested. This perception of the respondents is mainly motivated by the fact that they are unaware of the university's role in strengthening innovation in the country. However, there are considerable responses out of the rest of the Likert measurements for the importance of these university facilitation and support as perceived by the respondents in the 'very high' category. This demonstrates that firms that have relationships with universities perceive these seven facilitations and support offered by the university sector as being of the utmost importance for promoting innovation within the firm. Responses for the 'very high' category spread from 18% to 28% of the respondents. These two responses on the importance of the university facilitation and support, i.e. 'very low' and 'very high', together count 73% to 80% for all seven items provided. Therefore, it seems that the respondents did not pay too much attention to the other three options (low, moderate and high), which led to a conclusion based on the frequency of the two extreme responses.

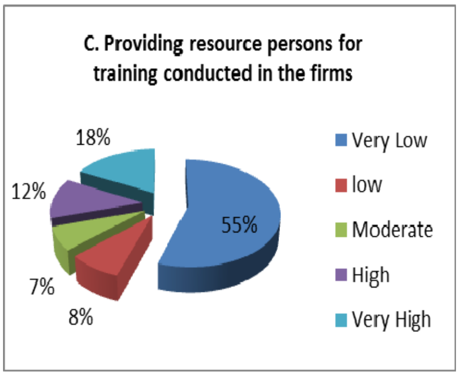

Figure no. 3. Providing resource persons for training conducted in the firm

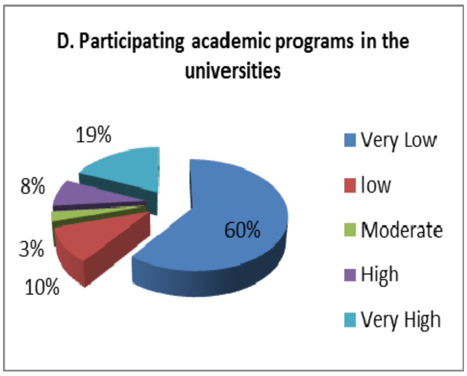

Figure no. 4. Participating academic programs in the universities

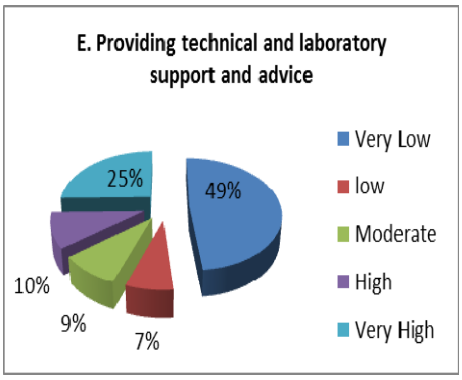

Figure no. 5. Providing technical and laboratory support and advice

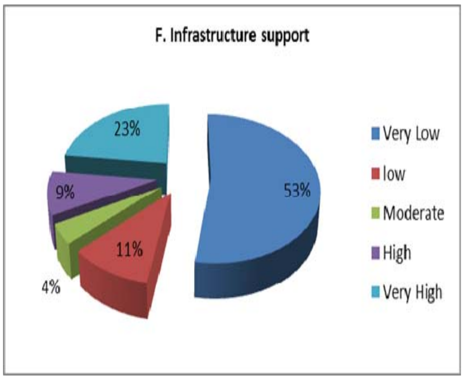

Figure no. 6. Infrastructure support

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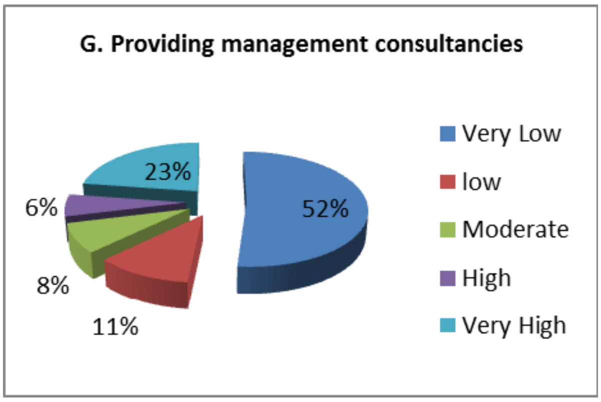

Figure no. 7. Providing management consultancies

The focus group discussion conducted after the survey revealed several policy implications for establishing good relationships among universities and industries. They felt that universities are far away from the industry and many of the SMEs did not recognize what universities can do for their innovation. Intermediaries such as technology centres, business development centres and incubators [Galli & Tuebal, 1997; Intarakumnerd & Virasa, 2002] may represent some forms of opening up mechanisms to SMEs for triggering their innovations, by spreading the necessary knowledge, although they are almost nonexistent. The availability of financial institutions and the widespread spread of all communities are appreciated, but it is understandable that there is a problem with the role and attitude of the people in the frontline. SMEs representatives revealed their concern about the frontline officers with regard to their incompetence, poor innovative orientation and having neither real intention nor practical knowledge to provide an effective service. This sector needs a more practical mechanism to implement government decisions and policies more realistically while being context-sensitive.

In addition, they raised several considerations for promoting innovations through collaborations. Protection of domestic producers with international suppliers, support to find out the market places in the global market, providing common innovative infrastructure facilities, assistance and proximity to the universities and research firms are also among the expectations of SMEs for triggering their actions towards innovation. Further, they are now struggling with the problem of finding new and skilled labour force for their industries, as many young people with fresh knowledge gathered from technical colleges and universities prefer to find foreign employment with prospects of high salaries or to join large firms with prestigious names instead of working in SMEs. Therefore, recruitment of new and young employees, which is directly linked to the absorptive capacity of a firm, is a difficult task for the emerging SMEs. This foreign employment policy has caused to increase labour cost too. SMEs expect government intervention to solve this issue, through revising foreign employment policies rather than simply promoting the migration of physical labour for lower level jobs in other countries.

Second Survey: The validity of the dimensions used to measure the strengths of the relationships was ensured through the extensive literature survey as discussed in previous sections. In order to identify relationships between faculties / departments and industry firms, the reliability of the data collected has to be measured, since the questionnaire's reliability has been tested.

This relationship is measured on five dimensions;

1) the frequency of conducting joint research activities;

2) the frequency related to inviting the personnel for visiting lecturing for the faculty/departments;

3) the degree of conducting the mutual joint research conference;

4) the frequency of conducting and engagement in workshops, meetings, training, and consultancies for the improvement of skills and knowledge sharing;

5) the frequency of sharing research and development infrastructure with each other.

The sample adequacy was measured using the factor analysis. "KMO and Bartlett's Test" was used as the benchmark and the outcome indicated a value of 0.752, which was greater than 0.5, thus it was determined that the sample is adequate. After that, the reliability analysis was conducted for the responses received on perceived dimensions on university industry relationships. The reliability is proven with the calculated Cronbach score of 0.846, which is greater than 0.7. The questions included in the questionnaire sufficiently presented the relationships that exist among faculties/departments with firms representing the industry.

This research study attempted to explore the networking relationships that exist among universities and industries in the NIS in developing countries. Following the survey methodology, the data were collected about the network relationships among the universities, the science and technology institutions and the firms in the industries, though the present study is focusing only on the university-industry relationships. We have succeeded in collecting 104 completed questionnaires to reveal the relationships maintained by each department and

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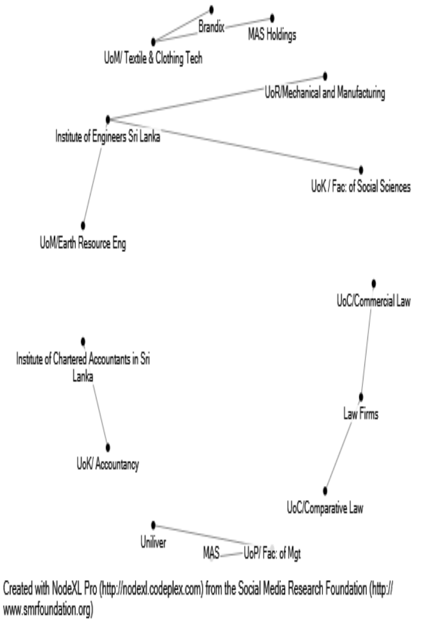
faculty over five dimensions identified and we used SNA methodology to graph and measure the collected data.

These partnerships were analyzed with the strength of relationships across each dimensions. Summary statistics and standard drawings were used to identify and measure strength of the relationships using NodeXL application software. However, there is no sufficient number of relationships found between the departments/faculties and the firms in the industry (Figure no. 8).

The departments or the faculties were requested to name the institutions and indicate the strength of such ties. There were limited networks that were revealed. The responded faculties / departments suggested a few numbers of firms in the university system. Hence, it can be concluded that there is a limited networking relationships that exist between the university sector and the firms in the industry. This finding is the confirmation of limited relationships revealed in the first survey conducted for identifying the innovative behaviour of SMEs in the industries.



	Any kind of links	Joint research	Visiting lecturing	Joint Conferences	workshops, training	Sharing R&D infra
Graph Type	Undirected					
Vertices	15	12	15	13	15	10
Unique Edges	10	8	10	8	10	7
Edges With Duplicates	0	0	0	0	0	0
Total Edges	10	8	10	8	10	7

Firms	Degree	Betweenness Centrality	Closeness Centrality
Institute of Engineers Sri Lanka	3	3.000	0.333
Law Firms	2	1.000	0.500
UoP/ Fac: of Mgt	2	1.000	0.500
UoM/ Textile & Clothing Tech	2	1.000	0.500
UoC/Commercial Law	1	0.000	0.333
UoC/Comparative Law	1	0.000	0.333

Figure no. 8. Network Relationship among Departments/Faculties in the University Sector and National R&D Institutes

Interviews conducted with Vice Chancellors

The study was planned to access and interview all the Vice Chancellors of the national universities in Sri Lanka. However, it was possible to reach only seven Vice Chancellors for reasons of some limitations in their busy schedules and the remoteness of their locations from Colombo. The first four universities, the University of Moratuwa, the University of Sri Jayewardenepura, the University of Peradeniya, and the University of Kelaniya are long established universities, while the other three universities are relatively young. The University of Moratuwa is mainly specialized in engineering and technology, while other three universities are well-known establishments for many disciplines. The University of Sri Jayewardenepura is the largest among other in terms of student enrolment, while the University of Peradeniya is the oldest university in the country. Rajarata University of Sri Lanka and Sabaragamuwa University of Sri Lanka have been established in 1996 granting university status merging to the university colleges affiliated with the technical colleges in different provinces and these are located about 200 km away from Colombo city. Wayamba University of Sri Lanka is even younger than other universities because it was established in 1999 awarding the university status for the Wayamba University College, which operated under Rajarata University of Sri Lanka previously.

All the seven Vice Chancellors emphasized that the role of universities is not only limited to traditional teaching and learning, but also inwardly oriented to researching and administrating internal matters. There is a tendency for thinking now on more collaborative work with external institutions and the industry to ensure the independency of the university and the expanding boundaries of the universities adapting to the global trends. The Vice Chancellors stressed the importance of collaborative research activities and working more closely with the social milieu and economic needs of the country, though there are some structural and cultural barriers to surmount with the traditional mode of universities. Hence, all Vice chancellors accepted the structural and financial flexibility needed for being competitive in the modern changing and more challenging environment.

The interviews aimed at revealing the interconnectedness of the universities with the industries for the purpose of developing new products, processes and other solutions through collaborative engagement in R&D projects. At the interviews, it transpired that the established universities have a good potential with their capabilities to bridge the gap prevailing between the present level of collaborations and required level for effective process of innovation. However, it is revealed that the existing relationships are not sufficient to exploit maximum capabilities of the university sector and the industrial sector. The University of Moratuwa has shown its forwardness in this area engaging with several MoUs with industrial firms and has engaged in establishing a few collaborative incubators to joint research activities. The University of Peradeniya and the University of Kelaniya have also benefitted from such collaborations. However, other four universities have not revealed that there is a considerable number of such engagements. Many engagements are found at individual level, instead they are maintained at institutional level. Hence, the data were not available in the university level in this regard.

Collaborations with industries are limited mainly because of internal and external matters as revealed in the study. Speaking about the academics' heavy workload in teaching and internal orientation, teaching is considered as their main role. Hence, it is the main internal barrier for exposure to the external world. The academics have functioned as good teachers in the university system for a long period of time despite difficulties in the transition of the traditional role to a new R&D oriented role of the academic. This favorable internal culture has been continually emphasized in interviews, reiterating the felt need to change this existing nature of internal culture for a better innovative performance in the future. The other main problem is the industry's hesitation in collaborating with the university sector, as a result of their lack of trust and lack of R&D orientation, lack which was brought into focus in the interviews. There is still no sufficient attention paid by the industrial firms towards active engagement of R&D. Most firms in Sri Lanka have shown their interest in just surviving in the present markets instead of looking forward to being more competitive through innovation. Hence, this demand factor limits such successful collaborations between the two sectors.

However, the Vice chancellor of the University of Peradeniya, despite its location away from the main capital city, firmly mentioned that many factors are acting positively for this kind of collaborations. He mentioned further that the trust of the industry on the R&D capabilities of the University is the key factor to attract R&D research projects from the industries. It seems this university enjoys the benefits of being a long established university in the country. This issue is of such importance and influence because of their forte of endowment, participating and genius in all the disciplines and having the largest multi-disciplinary faculty members in the country. It is a matter of fact that their reputation is predominantly built upon these issues and the external firms are eager to establish relationships and invest funds on R&D projects.

The most noticeable and important collaborative attempts between universities and industries are seen in the field of student internship programs. All universities are seeking the partnerships from the industry to improve and ensure their graduate employability through strong internship programs. There are very good formal mechanisms in some universities for their graduate training aims and objectives though there is only a little standing on research and development domains. Such attempts can be effectively used to reduce the gap between the two sectors, the industry and the university, and build trust on each other.

These results are confirmed with the interview data obtained through interviewing Vice Chancellors. Further, it was found that there is a good tendency in allocation of resources towards innovation infrastructure and trend in establishing effective networking relationships. The weak relationships found among the universities, the S&T Institutions and the firms were justified with the limited resources available in the university sector, restricted to mode one mission, prevailing culture among university staff and students and lack of consistency of the government policies on education system of the country. Most of universities are still define their role is primarily facilitation of knowledge sharing and learning, hence tagged as teaching universities. It was emphasized the importance of active engagement of the university sector by deploying more resources for innovation, encouraging academic members to engage in collaborative research activities which will address the practical issues of the industries to bridge the gap between the expected innovative performance of the university sector and the actual performance. This study indicates the importance of establishing strong partnerships among universities, S&T institutions and the firms representing industries, Universities are requested to play leading role to connect the knowledge creation process and facilitating firms to commercialize created knowledge collaboratively.

Conclusion

This study focused on identifying existing collaborations between universities and the firms in Sri Lanka in order to promote innovations for the economic and social benefits. There was little intention and intervention in both parties engaged in joint activities as revealed in both surveys and the interviews conducted with Vice Chancellors of the Universities. It is revealed that many universities in Sri Lanka still highly focus on teaching, especially undergraduate teaching in mass scale offering job oriented highly sought after degree programs. This traditional system helps to create graduates demanded by the multinational and large incumbent organizations and this is the role of the university and higher education system, which is considered as taken for, granted. There is a tendency towards entrepreneurship and innovation among many university leaders but the present level of resource deployment and motivation is not up to the satisfied level. Academics mainly do research activities for their own profiles. Collaborative industry based research activities are rare in many areas though agriculture and some science based collaborations exist. The main interlink between the industry and the academia is conducting internship programs. Both parties are keen on this matter as there are mutual benefits from internship programs. Apart from that these two sectors are highly fragmented and engaged in their activities isolated as explained in Helix II [Etzkowitz & Leydesdroff, 2000] and S1 [Galli & Teubal, 1997].

This study reveals that the SMEs in Sri Lanka are still reluctant to come to the university sector to borrow new knowledge and technologies for the application in improvements of their products and processes due to their unawareness on the university role in this regard. Further, industry does not believe that university can help to solve their industrial issues though this sector is facing huge vacuum of new and updated knowledge. SMEs perceive that it is unnecessary to the firms and is difficult to recover the investment for innovation with the restricted market conditions. They amend to their perception with the belief on the role of universities that these universities are there for producing advanced level knowledge workers matched with incumbent large firms. On the other hand, almost 50% of university academics still work only in their traditional teaching role showing the characteristics of the single role academics as mentioned in De Silva et al (2012). The Vice Chancellors of the universities pointed out that it is very difficult to transform existing inward oriented culture in the national universities exist though there are new avenues and opportunities opened with the flexible policies of the government. It is emphasized that the presence of universities highly independent and secured without private partnerships mainly continuous funding from the government to the survival of the university system. This funding from the government is mainly dedicated for producing employable undergraduates and it is considered as a mandatory requirement resulting with university teachers opt to believe that teaching is their main responsibility. The performance evaluation system of the university teachers has also based on the assessment of teaching performance with little emphasis on research activities.

However, there are positive trends between universities and large organizations especially in collaborative research activities, product developments and developing process technologies. A few incubators are available which share and develop infrastructure and resources combined by the universities and industries. Further, government allocation for higher education sector is not sufficient at present as a result of prioritizing other development targets. Hence, universities need to self-rely

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through innovative fund sources to be independent from limited government allocations while promoting entrepreneurial activities among the university community. This will urge academics and students to work more collaboratively with the outside funding, mainly with industries. Strengthening networking relationships through government intervention and policy deployment will be required for the effective and efficient work of this systematic view.

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BUDGETARY PARTICIPATION AND MANAGERIAL PERFORMANCE IN PUBLIC SECTOR ORGANISATIONS: A STUDY FROM NIGERIA

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Abstract

This study investigated the impact of budgetary participation on managerial performance in the public sector organisations in Nigeria. A questionnaire was used to obtain the opinion of 174 managers (unit and departmental heads) in five public sector organisations located in Abuja, Nigeria Federal Capital. Results from statistical analysis (descriptive, factor analysis, Kruskal-Wallis tests, correlation and regression) show that there is high level of budgetary participation by managers in public sector organisations in Nigeria. Although budgetary participation was observed to positively and significantly influence managerial functions such as planning, investigating, co-ordinating, supervising, evaluating, and staffing, it exerts the most on planning. The impact of budgetary participation on managerial performance appears to be moderate. Whilst it is desirable for public sector organisations to adopt sophisticated budgeting techniques, the study advocates for employees' motivation and deeper involvement in budget matters as a way out of the traditional budgeting quagmire that public sector organisations are characteristically bedevilled with.

Keywords: *budgeting; budgetary participation; public sector organisations; managerial performance; traditional budgeting.*

JEL Classification: M_4

1. *Introduction*

Budgeting has lent itself as one of the classical topics in business or management science disciplines perhaps because it is an activity carried out by different organisations – whatever their age, size, ownership structure, industry sector, international affiliation or establishment motives. As it is a popular practice with private sector organisations to use budgeting for various purposes such as planning, performance monitoring, co-ordinating [Maitland, 2000; Rasmussen, 2003; Chartered Institute of Management Accountants (CIMA), 2008], the government of nations also uses budgets as a fiscal policy tool [Mihai, 2010; Holynskyy, 2017]. The ubiquitous and multi-faceted nature of budgeting has brought about the behavioural ramifications, because one of the crucial elements in the budgeting system of organisations is the human being. Getting people involved in the budgeting process is critical, and this has caused the emergence of studies investigating the influence of budgetary participation on managerial performance.

Considering that budgeting applies to both private and public sector organisations, some scholars [Bameke, 2008; Mănescu, 2010; Olaopa, 2013] have argued that the subject of budgeting, budgetary participation and managerial performance in the public sector domain is too important to be ignored, because government-owned institutions provide essential services to the citizenry; and that the optimal utilisation of the resources supplied to them to achieve their set-up objectives is paramount. Most public sector organisations receive substantial part of their funding from the government that set them up to provide services to the public. The judicious utilisation of financial resources in such public sector organisations, facilitated by the existence of a sound budgeting system, could translate directly to the efficient utilisation of state resources. Review of literature on budgetary participation (BP) and managerial performance (MP) reveals a leaning towards private sector organisations in comparison to the public sector organisations [see Milani, 1975; Brownell & McInnes, 1986; Nouri & Parker, 1998; Chong & Chong, 2002; Agbejule & Saarikoski, 2006; Frucot & White, 2006; Yuen, 2007; Adeyeye, Otusanya & Uadiale, 2013]. In contributing to the debate on budgetary participation and managerial performance in public sector organisations, Thomson (1967) (cited in Williams, Macintosh & Moore, 1990), suggested that budgetary behaviour in private sector organisations may be different from public sector settings, thus suggesting limitation in the scope of generalisability of empirical results from budgetary participation and managerial performance in the private sector organisation, hence the need for study of public sector organisations.

The budget preparation process in the Nigerian public sector involves the initiation of a call circular to the various government ministries, departments, agencies and parastatals, who are expected to participate in budgeting activities, such as budget discussions, preparations, defence and implementation [Adams, 2002; Bammeke, 2008]. According to Omolehinwa & Naiyeju (2015), the budgeting process in the public sector is divided into four broad stages, which are: (a) formulation or preparation stage, (b) approval or enactment stage, (c) implementation stage, (d) monitoring and evaluation stage. At the formulation stage, employees have inputs to the budgets or participate in the budgeting process. Thus, employees in government institutions have crucial bearing on the success or failure of the entire budgeting system, and as a result, the level to which they are involved in the budgetary process is worth unearthing. However, little is known on the extent to which employees participate in budgeting in the Nigerian public sector. Further, as the purposes of budgets are similar with the functions of management, there is the possibility that budgetary participation may affect the discharge of managerial functions (such as planning, organising, controlling, co-ordinating, and decision-making, amongst others) – but the influence of budgetary participation on managerial functions in public sector organisations in the Nigerian context is under-researched. Although erstwhile studies on budgeting in private sector and public sector organisations have heretofore investigated the relationship between budgetary participation (BP) and managerial performance (MP) (for example, Stedry, 1960; Bryan & Locke, 1967; Hofstede, 1968; Milani, 1975; Kenis, 1979; Steers, 1979; Nouri & Parker, 1998; Wentzel, 2002; Kochi, 2011; Malgwi & Unegbu, 2012; Noor & Othman, 2012; Ajibolade & Akinniyi, 2013; Akinniyi & Ajibolade, 2013; Owusu, Dwomoh, Collins, Yaa & Daniel, 2014), there are conflicting views as to the nature of relationship (positive, negative, or neutral) between BP and MP.

This study was undertaken to close some of the observed gaps. The focus of this paper is to appraise the relationship between budgetary participation and managerial performance in the Nigerian public sector. The objectives are to: (i) appraise the level of managers (unit and departmental heads) participation in budgeting; (ii) examine the relationship between budgetary participation and managerial functions; and (iii) investigate the impact of budgetary participation on managerial performance in public sector organisations in Nigeria.

There are five sections (2-6) in the rest of the paper. After the review of literature and development of research hypothesis in section 2, section 3 delves into research methods. Next, results are analysed in section 4, followed by discussion of findings in section 5.

The paper is concluded in section 6.

2. *Literature review and development of hypothesis*

2.1. **Budgeting techniques**

Budgeting techniques such as incremental or traditional budgeting, Planning, Programming, and Budgeting System (PPBS), Zero Based Budgeting (ZBB) and Activity Based Budgeting, (ABB) have found relevance and use in private sector organisations, and could as well be deployed in public sector institutions. Incremental budgeting, a technique that adds a specified proportion to the previous year budget figure to allow for inflation and upgrade the previous year figure to the current year estimate, is popular among public sector institution [Adams, 2002]. The use of incremental budgeting has been criticized and identified as one of the fundamental errors in public sector budgeting [Langfield, Thorne & Hilton, 2006]. Other techniques such as PPBS, ZBB and ABB have been recommended to address this lacuna. The PPBS, ZBB and ABB however, require more participation and involvement of employees in the budgeting system. For instance, the PPBS requires the preparation of budgets based on well-justified programmes to be funded by the budgets. The ZBB requires a 'clean slate' fresh justification of budget expenditures by the preparers while the ABB is based on activity framework and it uses cost driver data in the budget setting and variance feedback processes. The successful deployment of the more advanced, objective, reliable and modern techniques of budgeting such as the PPBS, ZBB and ABB in public sector institutions may therefore rely to some extent on the level of participation in budgeting activities, as well as the motivation of employees to achieve set targets.

2.2. **Budgetary participation and managerial performance**

Budgetary participation can be viewed as the opportunity extended to employees or managers to be part of the budgeting process in an organisation [Kennis, 1979; Brownell, 1986; Shields & Shields, 1998]. Shields & Shields (1998, p. 49) defined budgetary participation as 'a process in which a manager is involved with, and has influence on, the determination of his or her budget'. The budgeting processes generally involves prioritisation of objectives identified in the planning process; assessment and quantification of total available resources; identification and quantification of the inputs and processes required to fulfil the stated objectives and the associated financial resource required; assignment of proportion(s) of the total resources necessary to acquire/manage inputs to achieve the stated objectives [CIMA Official Terminology, 2005].

Popularly acclaimed managerial roles in management literatures are: planning, organizing, staffing, directing, controlling, co-ordination [O'Reilly, 1989; Yukl, 1994; Vancouver, 1996]. Budgeting serves as a tool for achieving some of these managerial functions, and as such, it is not unexpected to evaluate whether participating in budgeting enhances the discharging of these duties. As to the approaches of budget preparation, budgets may be *top-down* (imposed), *bottom-up* (participative) or *parallel* (negotiated). The *bottom-up* and *parallel* approaches allow for employee participation in the budget management process.

2.3. **Prior studies on the nexus between budgetary participation and managerial performance**

Empirical researchers have been divided in their submissions as to the nature of relationship between budgetary participation and managerial performance. While some studies have posited a positive relationship between the two variables [e.g., Hofstede, 1968; Nouri & Parker, 1998; Wentzel, 2002; Adeyeye, Otusanya & Uadiale, 2013), other studies have asserted a negative relationship (Stedry, 1960; Bryan & Locke, 1967[. Furthermore, some scholars have argued that there is no difference in the performance of employees that participated in budgeting and those who did not participate [Milani, 1975; Kenis, 1979; Steers, 1979].

Wentzel (2002), upon investigating the influence of goal commitment and perception on fairness by employees in budgetary activities, concluded that participating in budgeting engenders a sense of fairness which in turn increases employees' commitment to achieving budget objectives, leading subsequently to improve budget rating. Some authors have suggested that there are strong linkages between budgetary participation and employee performance [Milani, 1975; Brownell & McInnes, 1986; Adeyeye, Otusanya & Uadiale, 2013]. As to the nature of the relationship, the strength of relationships reported by various research outputs have varied from strong positive relationship [Nouri & Parker, 1998; Yuen, 2007; Yahya et al., 2008], to weak positive relationship [Milani, 1975], and even to a negative relationship [Kenis, 1979]. Whilst contending that no single, definitive and universal relationship exists between budgetary participation and managerial performance amongst the results reported for studies of private sector organisations because of other intervening variables, Nikmah (2012) stated that the study of such relationship for government-owned public service institutions is scanty.

Yuen (2007), in a study of budgetary participation in a Macau government-owned institution, found that two antecedent factors, the need for achievement and work attitude, positively affect budgetary participation. Owusu et al. (2014) assessed the relationship between budgetary participation and employee performance in a Ghanaian public university. Although the results of the study establish some level of relationship between budgetary participation and employee performance, the strength of the relationship was found to be weak, connoting that there are other factors aside budgetary participation which influence the realization of budget goals.

Malgwi & Unegbu (2012), in investigating how budget performances in five selected states in Nigeria differ, concluded that there was significant difference in performance among the states, because of differences in the budgetary system, including differences in the level of budgetary participation. On the premises that the

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balance score card links budget strategy and objectives with Key Performance Indicators (KPI), they recommended a balanced score card approach to the preparation of budgets in the public sector, because budgets not only serve as a tool for revenue estimation and expenditure control, but also for checkmating corruption in the use of public resources. Akinniyi & Ajibolade (2013) investigated the relationship between budgetary participation and organisational performance, using intrinsic motivation as a mediating variable, in fifteen federal government-owned universities in Nigeria. The study sampled the views of 272 unit heads using questionnaire as the primary data collection instrument. It was observed that though the direct relationship between budgetary participation and managerial performance was not statistically significant, budgetary participation positively and significantly impacted on intrinsic motivation; intrinsic motivation in turn positively and significantly impacted on organisational performance.

Proponents of a negative relationship between BP and MP often hinge their arguments on the situation organisations find themselves in [Hopwood, 1973; Brownell, 1982]. If the job was routine and mechanical, budgetary participation may negatively influence performance; if tasks are regarded as easy, employee may consider participation in budgeting unnecessary, ineffective, and consequently decrease performance when budgetary participation increase [Mia, 1989]. Others have maintained that employees exploit budgetary participation to create budgetary slacks because of the incongruence in organisational and individual goals [Stedry, 1960; Cyert & March 1963; Schiff & Lewin, 1970; Ajibolade & Akinniyi, 2013]. According to them, budgetary slacks consequently lead to unfavourable performance, notwithstanding that a budget holder participated in budgeting.

2.4. **Theoretical framework**

2.4.1. *Theory of planned behaviour*

The theory of planned behaviour (TPB) was adopted to explain the nature of the relationship between budgetary participation (BP) and managerial performance (MP), specifically how BP influences MP (BP » MP). The theory of planned behaviour, which posits that people's behaviour can be deliberated and planned, helps to understand how people's behaviour can be influenced [Ajzen & Fishbein, 1980; Canary & Seibold, 1984; Ajzen, 1988; Sheppard, Hartwick, & Warshaw, 1988; Ajzen, 1991]. According to the theory, perceived behavioural control and behavioural intention can be used to directly predict behavioural achievement. The theory proposes that people's behaviours are guided by three considerations which are behavioural beliefs, normative beliefs, control beliefs. These are expounded below:

(a) Behavioural beliefs refer to the beliefs about the likely consequences of the behaviour adoption.

(b) Normative beliefs are the beliefs about the expectations of others from the actor or individual.

(c) Control beliefs are beliefs about the presence of factors that may facilitate or impede performance of behaviour adoption.

The theory explains how budgetary participation affects managerial performance thus:

Behavioural beliefs

Participating in budgeting is behavioural. Managers will expectedly participate in budgeting to the extent that it is believed to influence their performances. Stated differently, managers will participate more in budgeting if it is believed to enhance their performance, but will participate less in budgeting if it is believed it will contribute little to their performances.

Normative beliefs

Normative belief relates to subjective norm, i.e. how individual's behaviour is influenced by the society or environment: for example, the perceived social pressure to perform or not to perform the behaviour [Adeyeye, 2013]. This is relevant to this study because the extent to which managers will participate in budgeting is dependent on their perception or normative belief as to the extent to which it will affect their performance.

Control beliefs

Budgets serve various purposes including control purposes. A manager may therefore achieve easy compliance amongst subordinates through budgets because in the public sector, once budgets are approved, it becomes sacrosanct to implement them [Omolehinwa & Naiyeju, 2015]. As such, a manager sees the existence of budgets as a control factor that ensures compliance among subordinates and facilitates performance. It is to be expected, therefore, that a manager who wants to achieve control through budgets will participate more in budgetary activities, to improve performance in his/her unit or department, which is advertently a reflection of the manager's own performance. In other words, the presence of budgets is seen as a factor that facilitate performance, hence the dependence of managerial performance on budgetary participation.

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2.4.2. *Vroom's expectancy theory*

The expectancy theory conceptualised by Victor Vroom states that humans act according to their conscious expectations that a behaviour will lead to some specific outcomes or goals [Mullins & Christy, 2013]. Vroom proposed three components of the expectancy theory which are (i) expectancy (the belief of the person that his/her effort will result in a desired outcome or performance), (ii) instrumentality (the belief of the person that he/she will be rewarded if the performance is met), and (iii) valence (the value of the reward according to the reckoning of the person).

To situate the expectancy theory in the context of the relationship between BP and MP, managers will consciously participate in budgeting if they expect that it will favourably affect their performance. If they reckon that participating in budgeting (the behaviour) will improve their performance (specific goal), then they will participate more. Going by the interaction between budgetary participation and managerial performance as documented in extant literature [Agbejule & Saarikoski, 2006; Frucot & White, 2006; Chong & Chong, 2002; Nouri & Parker, 1998; Brownell & McInnes, 1986], it is hypothesized that:

H_1: Budgetary participation has a significant impact on managerial performance in public sector organisations in Nigeria.

3. ***Research methods***

3.1. **Population, sampling method and data collection procedure**

The study adopted a quantitative survey research design. The population of the study consists of the unit heads and departmental heads with budget responsibilities (equivalent to managers and senior managers respectively in private sector organisations) of five government-owned organisations located in Abuja, the Nigeria Federal Capital Territory (FCT). The five government-owned organisations are The Nigerian Electricity Regulatory Commission (NERC), The Federal Communications Commission (FCC), The Federal Inland Revenue Service (FIRS), Nigerian Investment Promotion Commission (NIPC), and Asset Management Corporation of Nigeria (AMCON). These organisations were selected because they are well-structured and accessible. The choice of Abuja as the area of study stems from the fact that it is the capital of Nigeria and all Federal Ministries, Department and Agencies have their headquarters in Abuja. Little, Magner & Welker (2002) supported by Khin (2010) suggested that organisations to be included for budgetary participation studies should be well-structured, decentralised, and budget holders should have budgetary responsibilities.

Primary data were collected from respondents, using a questionnaire as the research instrument. This design was considered appropriate to achieve the objectives of the study, because the study focused on perceptual issues on budgetary participation and employee performance. The study employed a multi-stage sampling technique, using a combination of probabilistic and non-probabilistic sampling techniques. First, the judgemental sampling technique was applied in generating a list of unit and departmental heads with budget responsibilities, obtained from the human resource departments of the selected organisations.

The total number of unit heads that satisfied the inclusion criterion was 376 in the five organisations. Next, 270 (representing ≈ 72%) unit heads were randomly selected from the list of budget holders, whilst also ensuring that a minimum of 61.8% sample was drawn across each organisation. 192 copies of the instrument were retrieved, but 174 copies (representing 64%) were found useable for analysis; this number is considered satisfactory, in line with Henri (2006). Statistics per distribution of copies of the research instrument among respondents is furnished in Appendix 1. The combined usage of the probabilistic and non-probabilistic (the multi-stage sampling) is also justified, claiming the limitation of one sampling technique is counteracted by the strength of the other sampling technique [Creswell, 2009]. Similar, earlier studies [Yuen, 2007; Frank, 2008; Luarn & Huang, 2009; Akinniyi & Ajibolade, 2013] have used this approach to select sample.

3.2. **The research instrument**

The research instrument was a multi-item questionnaire, segmented into three sections. The first section (Q1) of the questionnaire measured 'budgetary participation' and featured 6 items, adapted from Frucot & White (2006); and Leach-Lopez, Stammer & McNair (2007). Responses to items on budgetary participation were measured on a 7-point calibrated scale, ranging from strongly disagree (assigned code 1) to strongly agree (assigned code 7). The second section (Q2) measured 'managerial performance' using 8 variables, adapted from Maiga (2005) and Frucot & White (2006). Responses to statements on managerial performance were also calibrated on a 7-point scale, ranging from 1 (below average) to 7 (outstanding performance). The third section (Q3) captured respondents' demographics considered to influence their views such as gender, age bracket, educational qualification, managerial cadre, department/function, length of time spent in position held, and length of time spent in organisation.

3.3. **Model specification**

The Ordinary Least Square (OLS) models in equations 1 and 2 were formulated upon theoretical and empirical underpinnings established in literature as to the relationship between BP and MP.

Model 1

$PLN = \alpha_{01} + \alpha_1 BP + \alpha_{et1}$ (1.1)
$INV = \alpha_{02} + \alpha_2 BP + \alpha_{et2}$ (1.2)
$COO = \alpha_{03} + \alpha_3 BP + \alpha_{et3}$ (1.3)
$EVA = \alpha_{04} + \alpha_4 BP + \alpha_{et4}$ (1.4)
$SUP = \alpha_{05} + \alpha_5 BP + \alpha_{et5}$ (1.5)
$STF = \alpha_{06} + \alpha_6 BP + \alpha_{et6}$ (1.6)
$NEG = \alpha_{07} + \alpha_7 BP + \alpha_{et7}$ (1.7)
$REP = \alpha_{08} + \alpha_8 BP + \alpha_{et8}$ (1.8)

Where:
PLN: Planning
INV: Investigating
COO: Co-ordinating
EVA: Evaluating
SUP: Supervising
STF: Staffing
NEG: Negotiating
REP: Representing
α_{01-8}: Constant
α_{1-8}: Regressor Coefficients
α_{et1-8} Stochastic error term

Model 2

$MP = f\,(BP)$ (2)
$MP = \mu_0 + \mu_1 BP + \mu_{et}$ (2.1)
(+)

Where:
MP: Managerial Performance

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BP: Budgetary Participation
$\mu_{0:}$ Constant
$\mu_{1:}$ Regressor Coefficient
$\mu_{et:}$ Stochastic error term

A priori expectation of relationships between the dependent and independent variables are placed in parenthesis below the independent variable correlates in equations 1.1 and 2.1 respectively.

The evaluation of model fitness was triangulated using the model ANOVA *p* value, and a comparison of the Standard Error (SE) of Mean to the Mean of the Dependent Variable (DV). A model with *p* value ≤ 0.05 is generally regarded as significant, and a model with SE of mean < Mean of DV is regarded as being fit [Bordens & Abbott, 2002; Avwokeni, 2014].

3.4. **Reliability test and data analysis techniques**

Descriptive statistics including frequencies, Minimum value, Maximum value, Mean (M), and Standard Deviation (SD) were used to analyse the data. The score of all the six items used to measure budgetary participation were summed up and averaged to derive an overall mean score for budgetary participation (BP). Reliability test for BP using the Cronbach's alpha, yielded a coefficient of 0.727 (Appendix 2), which is above the recommended threshold of 0.7 considered satisfactory [Nunnally, 1978]. Factor Analysis was used to reduce the number of attributes for managerial performance (MP), which initially had eight items. The selection of variables was at a threshold of 0.3 [Kaiser, 1974]. Cronbach's alpha reliability test coefficient before factor-analysing MP was 0.773, but this improved to 0.788 after factor analysis (Appendix 2).

Test for normality was carried out using the one-sample Kolmogorov-Smirnov (KS) Z statistics. Both variables had p value less than 0.01 (BP, p value = 0.002; MP, p value, = 0.004), implying non-normal distribution (Appendix 3). As a result, analysis of difference in opinion on BP and MP was carried out using the Kruskal-Wallis non-parametric statistics to further examine the dispersion in opinion of respondents on the level of participation in budgeting, and rating on managerial performance. Length of time spent in organisation was used as the grouping variable in the Kruskal-Wallis analysis because it is suspected that this could influence respondents' perception on BP and MP. Correlation and regression techniques were applied to examine the nature of relationship between BP and MP variables. The Pearson Correlation coefficient (r) was used to gauge the direction (positive or negative), strength (weak or strong) and statistical significance of relationship between variables. Regression analysis was used to draw inference on the impact of the independent variable (IV) on the dependent variable (DV) using the Model ANOVA, coefficient of determination (R square), and the regressor coefficients in line with Luarn & Huang (2009). Adapting Cohen's (1988) guide, a framework for the interpretation of correlation coefficients and coefficients of determination was developed for the study (appendix 8). Data analysis was aided by *SPSS 23* software.

4. *Results*

4.1. **Respondents' demographics**

Results from the analysis of respondents' characteristics are presented in Tables 1 and 2.

Table no. 1. Characteristics of Respondents

Variable	*Category*	*Freq.*	*%*	*Total*
Gender	Male	112	64.4	
	Female	62	35.6	174
Age Group	(31-40) Years	76	43.7	
	(41-50) Years	98	56.3	174
Educational Qualification	First Degree only	11	6.3	
	Second Degree only	64	36.8	
	First Degree with professional	89	51.1	
	Second Degree with professional	10	5.7	174
Position in Organisation	Senior manager (Depart. Head)	70	40.2	
	Junior manager (Unit Head)	104	59.8	174
Department/Function	Finance & Accounts	77	44.3	
	Human resources	12	6.9	
	Public Relations	13	7.5	
	Procurement	17	9.8	
	Information Technology	14	8.0	
	Customer Service	41	23.6	174
Length of time spent in Position held	(0-3) Years	68	39.1	
	(4-7) Years	106	60.9	174
Length of time in Organisation	(0-3) Years	18	10.3	
	(4-7) Years	41	23.6	
	(8-12) Years	62	35.6	
	(13-18) Years	53	30.5	174

Table no. 2. Descriptive Statistics of Respondents' Characteristics

Demographic variable	N	Minimum	Maximum	Mean
Age Group	174	2	3	2.56
Education Qualification	174	1	5	3.13
Length of time spent in position held	174	1	2	1.61
Length of time in the organisation	174	1	4	2.86
Valid N (listwise)	174			

Summary statistics on the demographic variables shown in Tables 1 and 2 reveals that Age has a Mean score of 2.56, implying that on the average, respondents were within the age bracket of labels 2 (31 to 40 years) and label 3 (41 to 50 years). The average length of time spent in organisations was between label 2 (4 to 7 years) and label 3 (8 to 12 years). The average length of time spent in position was between 0 to 7 years. The average qualification held by respondents was First degree plus relevant professional qualification. The result of the demographic characteristics on respondents' age, educational qualification, position in the organisation (managerial cadre), department, length of time spent in role, and length of time spent in organisation give a reasonable level of assurance that respondents who participated in the survey were experienced, and possess the technical competence to provide answers to the items in the research instrument.

4.2. **Level of managers' participation in budgeting**

The overall mean of BP was computed using the six variables, as they all loaded in component 1 after performing exploratory factor analysis.

BP has a Minimum score of 5 and a Maximum score of 7 (appendix 7). The Mean score of 6.08 represents 86.9% on a 7-point calibrated scale. The SD of 0.327, indicating low dispersion of score from the Mean, implies a strong consensus on the level of budgetary participation in government-owned institutions. Further, Kruskal-Wallis test result confirms no significant difference in opinion of respondents based on their work experience ($p = 0.751$) [appendix 4]. On the strength of these results, it is concluded that the level of managers' participation in budgeting in public sector organisations in Nigeria is high (research objective one).

4.3. **Relationship between budgetary participation and managerial functions**

Results from analysis of the relationship between Budgetary Participation and the eight Managerial Functions are contained in Tables 3 and 4.

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Table no. 3. Correlation between Budgetary Participation and Managerial functions

BP \ MF		Planning	Investigating	Co-ordinating	Evaluating	Supervising	Staffing	Negotiating	Representing
Budgetary Participation	Pearson Correlation	0.374**	0.204**	0.262**	0.247**	0.263**	0.209**	0.117	0.043
	Sig. (2-tailed)	0.000	0.007	0.000	0.001	0.000	0.006	0.123	0.571

Correlation result in Table 3 shows that budgetary participation has a positive, significant relationship with six of the eight managerial functions, including planning ($r = 0.374$, $p = 0.000$), investigating ($r = 0.204$, $p = 0.007$), co-ordination ($r = 0.262$, $p = 0.000$), evaluating ($r = 0.247$, $p = 0.001$), supervising ($r = 0.263$, $p = 0.000$) and staffing ($r = 0.209$, $p = 0.006$). However, the strength of relationship between budgetary participation and planning (evincing the highest coefficient in Table 3) is moderate at 37.4%.

Establishing that there is significant relationship between budgetary participation and most of the managerial functions, further analysis was performed to assess the impact of budgetary participation on each of the managerial functions using regression analysis. Results are summarised in Table 4.

Table no. 4. Summary of Regression Results on the Impact of Budgetary Participation on Managerial Functions

Model No.	**Dependent Variable**	**R Square**	**Coefficients (Unstandardised)**	
			Constant (p value)	**Budgetary Participation (p value)**
1.1***	Planning	0.140	0.286 (0.790)	0.929 (0.000)
1.2***	Investigating	0.042	2.835 (0.013)	0.506 (0.007)
1.3***	Co-ordinating	0.069	2.967 (0.002)	0.539 (0.000)
1.4***	Evaluating	0.061	2.725 (0.008)	0.555 (0.001)
1.5***	Supervising	0.069	2.474 (0.015)	0.595 (0.000)
1.6***	Staffing	0.044	3.801 (0.000)	0.395 (0.006)
1.7	Negotiating	0.014	4.584 (0.000)	0.249 (0.123)
1.8	Representing	0.002	5.453 (0.000)	0.090 (0.571)

****Model ANOVA p value significant at 1%*

Models 1.1 to 1.6 are statistically significant at 1%. The dependent variable in each of these Models is the six managerial function measures that recorded a significant relationship with budgetary participation in Table 3, thus corroborating the significant relationship between budgetary participation and managerial function. Models 1.7 and 1.8 having *negotiating* and *representing* as dependent variables are not significant – these two variables do not significantly correlate with budgetary participation as well (Table 3), and the coefficients of budgetary participation (as the independent variable in the Models) do not assume statistical significance (Table 4). Hence, budgetary participation does not correlate with *negotiating* and *representing*.

The coefficients of determination (R square) in Table 4 connote that budgetary participation predicts changes in planning (14.0%), co-ordinating (6.9%), supervising (6.9%), evaluating (6.1%), staffing (4.4%), and investigating (4.2%). The coefficients of budgetary participation for these six items are positive and statistically significant at 1%, thus reinforcing the positive significant impact of budgetary participation on managerial functions. A close inspection of the regressor coefficients reveals that, although the coefficient of the constant in Model 1.1 (with *planning* as the dependent variable) is low (α_{01} = 0.286) and not statistically significant (p = 0.790), the coefficient of budgetary participation in this model is the highest (α_1 = 0.929, p = 000), and the Model recorded the highest coefficient of determination (R square = 0.140). In effect, budgetary participation has marked impact on planning, as the constant has a low and insignificant impact. To summarise, 14% of effective planning is attributable to active participation in budgeting. While the impact of budgetary participation on planning is adjudged moderate, its impact on co-ordinating, supervising, evaluating, staffing, and investigating is considered weak (research objective two).

4.4. **Impact of budgetary participation on managerial performance**

4.4.1. *Factor analysis of managerial performance*

To reduce the number of variables under managerial performance (having 8 items), exploratory factor analysis (EFA) was employed, using 0.30 as the cut-off. The Kaiser-Meyer-Olkin (KMO) and Bartlett's Test help to measure the strength of the relationship among variables [Nunnally, 1978]. The KMO measures the adequacy of the sampling, and coefficient should be generally greater than 0.5 for a factor analysis to be valid [Kaisen, 1974]. The principal component analysis (PCA) extraction method, with varimax rotation method, and Kaiser normalisation procedure was utilised.

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Managerial Performance has KMO coefficient of 0.503 and Bartlett's sphericity test of p = 0.030 ≤ 0.05, thus confirming its factorability (appendix 6a). Table of total variance explained presents all the factors extractable from the analysis along with their Eigen values (appendix 6b). It also explains the % of variances for the components having Initial Eigen values of a minimum of 1.0. The first factor accounts for 16.409% of the variance; the second, 14.290%; the third, 12.979%; and the fourth, 11.816%. Since component 1 has the highest magnitude of variance explained (16.409 %), variables that loaded on this component satisfying the 0.30 threshold were selected.

Table no. 5. Rotated Component Matrix[a] for Managerial Performance

	Component			
Variable	1	2	3	4
Planning	0.355	0.175	0.006	0.124
Investigating	0.703	0.129	0.249	-0.154
Co-ordinating	0.745	-0.119	-0.236	0.077
Evaluating	0.098	-0.174	-0.093	0.682
Supervising	0.281	-0.061	0.747	0.072
Staffing	-0.031	0.211	0.072	0.781
Negotiating	0.272	-0.033	-0.718	0.095
Representing	0.024	0.760	0.038	0.007
% of variance explained	16.409	14.290	12.979	11.816

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

[a] Rotation converged in 5 iterations.

The three items highlighted in component 1 (Table 5) emerged from EFA, including *Planning, Investigating* and *Co-ordinating,* meaning they have some correlations amongst themselves as to coherently represent *Managerial Performance*. Meanwhile, budgetary participation had a significant impact on these three variables. Commenting on other components, one item (*representing*) loaded on component 2, having 14.290% variance explained. While s*upervising* loaded on component 3 with 12.979% of variance explained, *evaluating* and *staffing* loaded on component 4, with

11.816% of variance explained. Overall, the five variables which did not satisfy the selection criteria that were consequently dropped include: *Evaluating, Supervising, Staffing, Negotiating*, and *Representing.* Two of these variables (*negotiating* and *representing*) have no significant relationship with budgetary participation though.

The descriptive statistics of Managerial Performance (MP), computed using the three items that were retained from component 1, is reported in appendix 7. MP has a Minimum and Maximum score of 5 and 7 respectively. The Mean score is 6.03, an equivalent of 86.1% over a 7-point scale calibration. It is inferable from these statistics that respondents consider themselves as performing well above average in their managerial responsibilities. The SD of 0.494 (appendix 7), and Kruskal-Wallis $p = 0.878 > 0.05$ (appendix 4), reinforces the consensus among respondents in this regard.

4.4.2. *Partial correlation analysis – relationship between budgetary participation and managerial performance*

Partial correlation analysis was carried out to examine the direction, strength and the statistical significance of the relationship between Budgetary Participation (BP) and Managerial Performance (MP), after taking out the effect of relevant demographic variables. Length of time in position held & length of time in organisation (proxies for 'length of experience'); and educational qualifications were used as control variables. Result is presented in Table 6.

Table no. 6. Partial Correlation Analysis between BP and MP

Control Variables			Managerial Performance
Length of time in position held & Length of time in the company & Education Qualification	Budgetary Participation	Correlation	0.442
		Significance (2-tailed)	0.000
		df	169

The relationship between BP and MP, after controlling for the effect of respondents' experience and educational qualification, is positive, moderate, and statistically significant at 1% ($r = 0.442$, $p = 0.000 \leq 0.01$). The strength of relationship of budgetary participation and managerial performance is moderate at 44.2%.

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4.4.3. *Regression analysis – impact of budgetary participation on managerial performance*

To further assess the influence of budgetary participation on overall managerial performance, regression analysis was carried out in respect of Model 2, and the results reported in Tables 7a and 7b.

Table no. 7a. Regression Test Results for Model 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
2	0.437[a]	0.191	0.186	0.445	0.191	40.509	1	172	0.000

[a] Predictors: (Constant), BP

Table no. 7b. Regression Coefficients[a] for Model 2

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
2	(Constant)	2.029	0.630		3.222	0.002		
	BP	0.658	0.103	0 .437	6.365	0.000	1.000	1.000

[a] Dependent Variable: MP

Model 2 has ANOVA $p = 0.000 \leq 0.01$ (Appendix 5), meaning the model is statistically significant at 1%. The Standard Error of the estimate (0.445) is less than the Mean of the Dependent Variable (6.08), which establishes the Model fitness. The variance inflation factor (VIF) and tolerance statistics indicate that there is no collinearity problem between dependent variable and the independent variable. A VIF less than 10 indicates that there is no multi-collinearity problem among the independent variables [Stevens, 2002]. The Model has R square of 0.191 (Table 7a), meaning 19.1% of the changes in managerial performance is attributable to budgetary participation. The remaining 80.9% is the error term (μ_{et}), which refers to extraneous variables outside the model affecting managerial performance. The constant μ_0 ($p = 0.002 \leq 0.01$) is significant at 1%. The unstandardised beta of BP (μ_1

= 0.658, $p = 0.000 \leq 0.01$) is positive and significant at 1% (Table 7b), corroborating the positive significant relationship between BP and MP observed from correlation analysis (Table 6). Inferring from these results, we conclude that the impact of budgetary participation on managerial performance is positive, significant and moderate (research objective three).

4.5. **Test of hypothesis**

Result from partial correlation analysis in Table 6 confirms the relationship between BP and MP to be positive and statistically significant at 1% ($r = 0.442$, $p = 0.000 \leq 0.01$). Also, when BP was regressed on MP in Model 2, result shows the beta of BP ($\mu_1 = 0.658$, $p = 0.000 \leq 0.01$)) to be positive and significant at 1% (Table 7b). In addition, budgetary participation had a significant impact on six of the eight managerial functions (Table 4). It is therefore concluded that *budgetary participation has a significant impact on managerial performance in public sector organisations in Nigeria.*

5. ***Discussion***

It was observed that budgetary participation and planning correlates at 37.4% (highest correlation coefficient in Table 3), and budgetary participation explains 14% of the variation in planning (Table 4). This could be interpreted that of all the managerial performance measures, budgetary participation exerts the most on planning. The budgetary process involves steps such as planning, co-ordinating, controlling, amongst others. Participating in the budgeting process will require managers to get involved in the budgeting activities such as active participation in setting the budgets, making necessary inputs and relevant contributions through the expression of opinion. When the estimates are approved by the National Assembly, it becomes budget, and it is used to assess performance of managers. Participation in budgetary activities presents managers with the opportunity to contribute their inputs such that before the budget is finally agreed upon and eventually approved, they can express the areas they are comfortable with and the areas of concern, to avoid a situation whereby managers feel the budgets are imposed upon them without their consultation and consent. This phenomenon may therefore explain the high level of budgetary participation observed in public sector organisations in Nigerian (research objective one)

Considering that budgeting is used to carry out managerial responsibilities, how well a manager performs depends on the extent of budgetary participation because of the managerial roles which budgeting performs such as planning, controlling, co-ordinating, evaluating. For example, managers that plan the expenditure in their departments by participating in budgeting will be greatly aided in a way in their overall planning because the requirements to submit annual budgets will cause them to do a holistic review of the activities to be carried out in the department for the year. Since some budgets may be prepared based on activities to be carried out (modern budgeting techniques such as PPBS, ZBB and ABB supports this philosophy), managers will have to identify the activities for the year, and the underlying budget estimates for the activities: thus, budget preparation, advertently reinforces planning. A manager can also use budgets for co-ordination of activities and evaluation of performance. When actual performances are measured and compared with standards contained in a budget (performance evaluation), variances can be identified, investigated and corrective actions taken to remedy the situation. Such actions, when taken, contribute to the effectiveness of a manager's supervision and task co-ordination. In summary, because of the overlap between the functions of budgeting and the roles involved in management, participating in budgeting affects the discharge of managerial functions in some ways (research objective two). Failure by managers to express their opinion concerning a budget, if it is too high or too low, when the opportunity to participate in budgeting presents itself will mean they are doing a great deal of disservice to themselves, because when the budget becomes approved, it will serve as a yardstick to assess, reward or punish the managers for good performance, under-performance or lack of performance. The consideration and consciousness that such budgets will be used to assess performances (whether they participate in budget-setting) should naturally spur managers to participate in budgeting, even if ordinarily they do not feel like doing so.

The regression result concerning the influence of budgetary participation on managerial performance (Model 2) addresses the third research objective. In Model 2, the R square of 0.191 implies that budgetary participation influences managerial performance up to 19.1%. Although 19.1% improvement in managerial performance is attributable to participation in budgeting, 14% improvement in planning alone is accounted for by budgetary participation (Model 1.1). Whilst the influence of budgetary participation on managerial performance is positive and statistically significant, the impact is considered moderate. There are other factors affecting performances of managers in the government-owned institution aside participating in budgeting such as task-technology fit, computer self-efficacy, and utilisation of IT facilities [Luarn & Huang, 2009]; and institutional factors such as incentives and goal clarity [Frank, 2008]. Likewise, Haenisch's (2012) study on factors affecting the productivity of government workers in the United States of America empirically validated the influences of supervision and management; communication, recognition, training, technology, and volume of work on employees' performances in public sector organisations. The direct influence of budgetary participation on managerial performance, as indicated in the result of this study, aligns with the submissions of earlier studies that budgetary participation positively affects managerial performance in private sector organisations [Hofstede, 1968; Brownell, 1982; Nouri & Parker, 1998; Wentzel, 2002; Adeyeye, Otusanya & Uadiale, 2013], as well as in public sector organisations [Kochi, 2011; Malgwi & Unegbu, 2012; Noor & Othman, 2012; Owusu, Dwomoh, Collins, Yaa & Daniel, 2014]. The result also validates the theories (theory of planned behaviour and expectancy theory) underpinning the influence of budgetary participation on managerial performance which suggest that how well a manager performs may be dependent on the level of involvement in budgeting activities. In summary, the level of managerial performance (especially the ability to effectively plan) may be dependent on the degree to which a manager participates in budgetary activities.

6. *Conclusions*

In response to the call for more research on budgetary participation and managerial performance in public sector organisations, this study investigates the level of participation in budgeting by managers (unit and departmental heads), the relationship between budgetary participation and managerial functions, and the impact of budgetary participation on managerial performance in public sector organisations in Nigeria. The study found that there is high level of budgetary participation by managers in public sector organisations in Nigeria. Although budgetary participation was observed to positively and significantly influence managerial functions such as planning, co-ordinating, supervising, evaluating, staffing, and investigating, it exerts the most on planning. The impact of budgetary participation on overall managerial performance appears to be moderate.

This paper contributes to knowledge in the way of closing the gap in literature on budgeting in the public sector, as empirical studies in this area are scanty. However, the results of the study should be interpreted with caution as limitations of survey research apply, especially social desirability bias, in which respondents give an answer that they perceive as being good or desirable rather than the correct answer. In addition, findings may be inapplicable to public sector organisations in other countries because of subsisting peculiarities inherent in

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different domains. Since most studies have focused on the influence of BP on MP (BP»MP), further studies may investigate of the influence of MP on BP (MP»BP), and other factors, aside employee performance which may influence budgetary participation.

It is desirable that public sector organisations transit from incremental budgeting to sophisticated budgeting techniques such as ABB, ZBB, PPBS. However, getting employees more involved in the budgeting process is a step, which could gradually pave way for improvement in budgeting. Employees' motivation and deeper involvement in budget matters in the public sector could be the way out of the traditional budgeting quagmire that public-sector organisations are characteristically bedevilled with.

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APPENDICES

Appendix 1: Questionnaire Administration

Organisation	Population (a)	Sample size / number of questionnaire distributed (b)	Proportion of sample size in relation to population (b) / (a) x 100	Number of copies of questionnaire returned and usable (c)	Response rate (c) / (b) x 100
AMCON	16	15	93.7%	10	66.67%
FCC	25	24	96.0%	20	83.33%
FIRS	238	147	61.8%	89	60.54%
NERC	67	57	85.1%	35	61.40%
NIPC	30	28	93.3%	20	71.42%
Total	**376**	**271**		**174**	**64%**

Appendix 2: Reliability Test Results

Variable	No. of items	Cronbach's Alpha
Budgetary Participation	6	0.727
Managerial Performance (before factor analysis)	8	0.773
Managerial Performance (after factor analysis)	3	0.788

Appendix 3: Test of Normality using One-Sample Kolmogorov Smirnov statistics

		Budgetary Participation	Managerial Performance
N		174	174
Normal Parameters[a,b]	Mean	6.08	6.0326
	Std. Deviation	0.327	0.49359
Most Extreme Differences	Absolute	0.143	0.135
	Positive	0.086	0.130
	Negative	-0.143	-0.135
Kolmogorov-Smirnov Z		1.886	1.776
Asymp. Sig. (2-tailed)		0.002	0.004

[a] Test distribution is Normal.
[b] Calculated from data.

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Appendix 4: Kruskal Wallis test of *BP* and *MP*

Test Statistics[a,b]

	Budgetary Participation	Managerial Performance
Chi-Square	1.207	0.681
df	3	3
Asymp. Sig.	0.751	0.878

[a] Kruskal Wallis Test

[b] Grouping Variable: Length of time in the company

Appendix 5: ANOVA[b] Test result for Model 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.035	1	8.035	40.509	0.000[a]
	Residual	34.114	172	0.198		
	Total	42.149	173			

[a] Predictors: (Constant), BP

[b] Dependent Variable: MP

Appendix 6: Results from Exploratory Factor Analysis for Managerial performance
6a: KMO and Bartlett's Test for Managerial Performance)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.503
Bartlett's Test of Sphericity -	Approx. Chi-Square	53.538
	Df	36
	Sig.	0.030

6b: Total Variance Explained (Managerial Performance)

Component	Initial Eigen values			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.477	16.409	16.409	1.355	15.053	15.053
2	1.286	14.290	30.699	1.295	14.393	29.446
3	1.168	12.979	43.678	1.210	13.439	42.886
4	1.063	11.816	55.494	1.135	12.609	55.494
5	0.982	10.906	66.401			
6	0.920	10.219	76.620			
7	0.749	8.321	84.941			
8	0.727	8.075	93.015			
9	0.629	6.985	100.000			

Extraction Method: Principal Component Analysis.

Appendix 7: Descriptive Statistics on Budgetary Participation and Managerial Performance

	N	Minimum	Maximum	Mean	Std. Deviation	*p* value*
Budgetary Participation	174	5	7	6.08	0.327	0.751
Managerial Performance	174	5	7	6.03	0.494	0.878
Valid N (listwise)	174					

**p value from Kruskal Wallis test in appendix 4*

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Appendix 8: Interpretation of Correlation Coefficients and Coefficients of Determination adopted for the Study

Interpretation of correlation coefficient (strength of relationship)	Correlation coefficient (*r*)	Coefficient of determination (R square*)*	Interpretation of Coefficient of determination (impact of IV on DV)
Perfect relationship	1.00	0.90 - 1.00	Overwhelming
Very Strong	0.70 - 0.99	0.70 - 0.89	Very Large
Strong	0.50 - 0.69	0.50 - 0.69	Large
Moderate	0.30 - 0.49	0.10 - 0.49	Moderate
Weak	0.10 - 0.29	0.01 - 0.09	Weak
No relationship	< 0.10	< 0.01	No impact

Source: *Authors' Compilation*

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EFFECTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON CORPORATE PERFORMANCE OF SELECTED BANKS LISTED ON NIGERIA STOCK EXCHANGE

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Abstract

In the light of globalisation, where foreign investments have become trendy, comparability of financial reports of Nigerian firms and those of other firms across the world has become a concern. Nigerian firms have been mandated to adopt the International Financial Reporting Standards (IFRS) in their financial reporting. This study has examined the effect of the IFRS adoption on the reported performance of Nigerian banks listed on the Nigerian Stock Exchange. Eight (8) out of the fourteen (14) quoted banks were selected for the study. The four indices of performance employed in the study are profitability using the return on equity, liquidity using total deposit to total loan, loan grants and then market value measured by price earnings ratio for the period (2011 and 2012). 2011 represented GAAP era while 2012 stands for IFRS adoption. A comparability index for the banks was computed using the Excel Spreadsheet for each of the banks on each variable. Then the One Sample Test was employed for the analyses. The mean was used to answer the research question while the t-statistics tested the hypotheses. The results showed that mean values for profitability, liquidity and market value are greater in the GAAP era (2011) than in the IFRS period (2012), while loan grant was higher for the IFRS period (2012). The t-tested indicated the fact that none of the variables had significant effect. Thus, the study concluded that IFRS adopted does not have significant effect on bank performance reported in 2011 and 2012. The use of IFRS for all firms, as well as incorporation of IFRS guideline in professional training are recommended by this study.

Keywords: *International Financial Reporting Standards (IFRS); Generally Accepted Accounting Practice (GAAP); corporate performance; Nigeria.*

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Introduction

1.1. **Background to the study**

The widespread adoption of International Financial Reporting Standards (IFRS) indicated a new era in financial reporting [Taiwo & Adejare, 2014]. Considering the relative newness of the presence of International Financial Reporting Standards (IFRS) in Nigeria and other sub Saharan countries from Africa, its adoption has not been taken seriously [Abata, 2015a]. Ismaila (2010) stressed that only about 20% of the 54 countries in Africa have adopted IFRSs as a principle based financial reporting structure. This conforms their ignorance of the benefits that IFRSs can bring to a more transparent and credible financial reporting practice or their unwillingness to be part of the global economy [Abata, 2015a].

It will be in the interest of the Nigerian economy for listed companies to adopt globally accepted, high quality accounting standards, by fully converging Nigerian national accounting standards with International Financial Reporting Standards (IFRS) over the earliest possible transition period, given the increasing globalization of capital markets (IFRS Adoption Roadmap Committee, 2010). According to the IFRS Adoption Roadmap Committee (2010), Public Listed Entities and Significant Public Interest Entities are expected to adopt the IFRS by January 2012. All Other Public Interest Entities are expected to mandatorily adopt the IFRS for statutory purposes by January 2013, and Small and Medium-sized Entities (SMEs) shall mandatorily adopt IFRS by January 2014.

The financial wellbeing of any business entity plays a vital role in the wellbeing of stakeholders and the country at large [Sofia, 2015]. In this era of global economic meltdown, there is an urgent need for corporate entities in Nigeria to improve their corporate performance to be and remain relevant in the global market [Ironkwe & Oglekwu, 2016]. Full compliance to International Financial Reporting Standards (IFRS) plays a vital role in increasing and improving the acceptability and reliability of the instrument used in measuring corporate performance of a given business entity [Ofurum, Egbe & Micah, 2014]. The corporate performance is of paramount concern to shareholders, management, employees, investors, creditors, tax authority, etc. which have different interests in the organization. Their various performance interests focus range from profitability, solvency, and efficiency to capital structure performance [Frank & Alan, 2008]. Corporate performance can be measured through the analysis and interpretation of the components that make up the financial statements.

Controversies always existed over the suitability of applying IFRS in developing countries with Singh and Newberry (2008) and Chen, Jiang and Lin (2010) arguing that there exist two schools of thought in this area. The first supports a single set of global standards as being suitable for application. Barth (2008), for instance, argues that by adopting a common body of international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of international accounting standards than with various local accounting standards. The second opposes the use of IFRS. Barth, Landsman and Lang (2007) and Bartov, Goldberg and Kim (2005) argue that there is no conclusive evidence that IFRS have contributed to improvements in accounting quality. Furthermore, it has been argued that one single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures [Armstrong et al., 2007; Access Bank, 2010].

According to Ofurum, Egbe and Micahn (2014), all Listed Companies in Nigeria among which are also banks are mandated to adopt IFRS by January 1, 2012 and by 2015 there should be full compliance of all business categories. From the foregoing, the focus of this research is to examine whether or not there is increase in indicators of corporate performance of these companies that have adopted IFRS as a principle by which their financial statement is being prepared and presented. The corporate performance of an organization is of great interest to stakeholders who want to determine beforehand the earnings per share and return on equity of such organization before investing their limited scare resources. IFRS adoption gives confidence to stakeholders in relying on the financial statements to take relevant and informed decisions. IFRS are viewed as international financial reporting standards with high quality principles that are recognized and accepted globally by companies around the world. In light of this therefore, this study focuses on the effects IFRS has on selected indicators of corporate performance of Listed Banks in Nigeria. That is, in what way has the compliance to IFRS helped increase profits, liquidity, loan grants and market value, which are the main reasons for any organization's existence.

1.2. **Statement of the problem**

Scholars have argued that the characteristics of local business environments and institutional frameworks determine the form and contents of accounting standards in developing countries. Developing countries, including Nigeria, are characterized by delicate institutions and unstable economic and political environments, which are not beneficial to assimilation of IFRS [Muhammad, 2015]. Regardless of the arguments, several countries and companies have adopted IFRS and there is irresistible need to review the outcome. There are mixed results as to whether the adoption of the IFRS improves the performance of business institutions or not [Muhammad, 2015]. Lantto and Sahlström (2009), for instance, present such results as the adoption of IFRS affects financial ratios of firms in Finland. They found that liquidity ratios decrease under IFRS, while leverage and profitability ratios increase.

As evident from the foregoing, a good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe in supporting the adoption of IFRS globally. Few of the studies had given contradictory views questioning the relevance of IFRS adoption in developing and emerging economies [Mutai, 2014]. The fact that financial reports exist to satisfy the diverse needs of numerous users such as the investors, management, employees, government, researchers, and so on, determines the need to evaluate its overwhelming impact. The problem is that banks have incentives to withhold or manipulate information in certain situations (poor performance). This is because the publication of such information imposes both direct and indirect cost on the disclosing firm [Mutai, 2014]. Besides the cost of collating, processing, communicating and auditing the information to be published, the position of the disclosing firm may be damaged when such information is used by competitors, government agencies, trade unions, clients or suppliers.

In light of this therefore, this study focuses on the effects of IFRS on selected Banks in Nigeria. The study is said to determine if bank performance has improved since the adoption of IFRS in 2012.

1.3. **Objective of the study**

The main objective of this study is to investigate the effects of IFRS on corporate performance of selected banks listed on Nigeria Stock Exchange. The specific objectives include:

1) to investigate the effects of IFRS adoption on the profitability of banks in Nigeria;
2) to determine the effects of IFRS adoption on the liquidity of banks in Nigeria;
3) to determine the effects of IFRS adoption on loan grants of banks in Nigeria;
4) to ascertain the effects of IFRS adoption on market value of banks in Nigeria.

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Review of related literature

2.1. **Conceptual framework**

2.1.1. *Concept of International Financial Reporting Standards (IFRS)*

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. According to Nobes (2006), the term International Accounting Standards convergence is not a new agreement; the thought originally came up during the later part of 1950, in response to post World War II economic and financial integration and the associated enhancement in capital flow across borders. Prior to this time, efforts were geared towards Harmonization of Accounting Standards. This simply means decreasing dissimilarity in accounting concepts and principles adopted in most capital markets in nations around the world. The concept of Convergence in the 1990s replaces Harmonization, which simply means the creation of international accounting standards that are of excellent quality to be employed in almost all the major capital markets of the world.

This unified set of Accounting Principles was brought into reality to trim line the international differences that restrained investment opportunities worldwide [IFAC, 2008]. In view of the fact that one's environment affects the way and manner accounting is being practice, this perceived cultural factor of such environment comprises their individual belief system and the value they uphold; the accountants' value system is also determines by the Cultural Environment prevalent in that country. Further contributing factors to International Accounting Standards differences are taxation method, legal system and inflation of that geographical region. The International Accounting Standards Committee (IASC) as a body was created to bridge the gap of International Accounting Standards differences. In 1973, IASC was established by professional accountancy bodies from ten different nations, which include United Kingdom, Australia, Ireland, Canada, Germany, Mexico, France, Netherlands, Japan and the United States of America. The task of this body is to formulate and publish Accounting Standards, which are to be followed in order to ensure that audited accounts and financial statements are prepared, presented and reported in order to encourage global approval. In April 1st, 2001, IASC and FASB (Financial Accounting Standards Board) held a meeting, which gave convergence a fresh drive. Ever since then, the drive in the direction of the International Accounting Standards has advanced speedily and, in the year 2009, European Union and more than 130 nations of the world have either permitted or required the adoption of IFRS published by the IASB or the local variation of the Board.

2.1.2. *International Financial Reporting Standards (IFRS) in Nigeria*

The Federal Government of Nigeria, on 2nd September 2010, officially declares IFRS adoption in Nigeria and initiated the guidelines to be followed for its accomplishment. The consent to IFRS adoption by the Federal Government of Nigeria made the country becomes enlisted member of those countries that have adopted IFRS across the globe. The guiding principles to be followed for implementing IFRS are in three consecutive phases. The first phase comprises of Listed and Significant Public Interest Entities that are mandated to prepare and present their audited financial statements in compliance to relevant IFRS by 31st of December 2012. The second phase of IFRS implementation focuses on Public Interest Entities that are authorized to comply with IFRS format for statutory rationale by 31st of December 2013. The third phase, on the other hand, expects all Small and Medium sized Enterprises (SMEs) to mandatorily comply with the adoption of IFRS as statutory reporting by 31st of December 2014 [Uwadiae, 2012].

As a universally accepted fact, accounting is seen as the language of business through which performance and position of an entity is being communicated to outsiders (stakeholders) hence the need for a common language. IFRS has made this statement a reality because through the acceptance of IFRS, business language can be spoken in a language, which is universally known, accepted, and understood by almost all worldwide investors.

Adejoh and Hasnah (2014) noted that the need for a high quality and a uniform manner for which financial statements are being prepared and presented gave rise to IFRS. IFRS as a principle-based format is seen as a set of published financial accounting pronouncements given by the IASB to assist accountants and auditors across the world in the preparation, presentation and reporting of transparent, high quality and comparable financial information to aid informed decision-making.

IFRS, according to Siti et al. (2014), is the common global language designed to be followed by companies across international boundaries to reflect their financial activities and to improve the understanding, comparability and quality of financial reporting. Chakrabarty (2011) believes that IFRS as a standard are meant to attain the following objectives: support in the standardization of the varied accounting principles and policies obtainable across the globe and enhancing comparability of financial statements. Also, to facilitate the preparation and presentation of financial statements, which are transparent, comparable to high-quality information. Another objective is to reduce alternatives ways of preparing the financial statements and thus eliminating the element of subjectivity.

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2.2. **Theoretical framework**

This work is anchored on Michael C. Jensen (2001) Value Maximization theory. The fundamental reason for presenting a firm's financial statement in accordance with the IFRS is to maximize its long-term value. This theory states that the primary objective and purpose of an existing firm is to get the most out of shareholders wealth, which is maximizing shareholders wealth in the long run [Abdul-Baki et al., 2014]. According to Michael C. Jensen, this theory explains that all the activities of an organization, whether charitable or otherwise, are basically seeking to make profit. This theory also states that on the long run, there will be maximization of other stakeholders and financial claimants like debt and warrant holders [Abdul-Baki et al., 2014]. The researcher therefore noted that the fundamental reason or essence of a firm's financial statement being disclosed in compliance with IFRS is to maximize mangers and firm's value on the long run.

2.3. **Empirical review**

Ironkwe and Oglekwu (2016) carried out a study on International Financial Reporting Standards (IFRSs) and Corporate Performance of Listed Companies in Nigeria. The study adopted personal interview and questionnaire methods as the major techniques for primary data collection. Data collected were analyzed using both descriptive methods such as tables, frequencies and percentages and inferential statistics of Chi-square and ANOVA respectively. The study concluded that there is a strong positive relationship between the adoption of IFRS and the financial performance due to cost reduction of an organisation. IFRS adoption improves business efficiency and productivity for effective business performance. The adoption of IFRS saves multinational corporations the expense of preparing more than one set of accounts for different national jurisdictions.

Abata (2015b) carried out an investigative study on the impact of IFRS on Financial Reporting Practices in Nigeria. Data were collected from 50 employees of KPMG (a leading professional financial services provider) using structured questionnaire and analysed using mean scores, standard deviation and Pearson Chi-square analysis. The findings revealed that IFRS provides better information for regulators than GAAP (mean = 4.72). The results of the study showed that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to financial reporting practices of KPMG. The results of Pearson Chi-square analysis showed that financial reports prepared under IFRSs enhanced best practices in a corporate organization (Pearson Chi-Square = 37.857); financial statements prepared in line with IFRS provides greater benefits than the former GAAP (SAS) (Pearson Chi-Square = 75.763); the compliance with IFRS promotes cross border investment and access to (Pearson Chi-Square = 63.128); and compliance with IFRS will relatively improve the performance of companies (Pearson Chi-Square = 20.417).

Shehu (2015) researched on adoption of international financial reporting standards and earnings quality in listed deposit money banks in Nigeria. He investigates firm's attributes from the perspective of structure, monitoring, performance elements and the quality of earnings of listed deposit money banks in Nigeria. The study adopted correlational research design with balanced panel data of 14 banks as sample of the study, using multiple regression as a tool of analysis. The result reveals that firm's attributes (leverage, profitability, liquidity, bank size and bank growth) have a significant influence on earnings quality of listed deposit money banks in Nigeria after the adoption of IFRS, while the pre-period shows that the selected firm's attributes have no significant impact on earnings quality. It is therefore concluded that the adoption of IFRS is right and timely.

Abata (2015a) studied the impact of International Financial Reporting Standards (IFRS) adoption on financial reporting practice in the Nigerian banking sector. The specific objective of this paper is to determine whether the quantitative differences in the financial reports prepared by Nigerian listed banks under NGAAP and IAS/IFRS are statistically significant or not. Secondary data were employed in this study. These data were gleaned from the annual reports of fourteen Nigerian listed banks. One hypothesis was developed and tested at five (5) per cent level of significance. Findings revealed that the quantitative differences in the financial reports prepared under NGAAP and IAS/IFRS are statistically significant. The study therefore concludes that IFRS have an impact on the financial reporting in the Nigerian banking sector.

Muhammad (2012) examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. The study utilizes secondary data to tests the effects of the adoption of IFRS on the performance of the selected firms in Nigeria. Logit regression and t-test were used in the analysis. The study finds that variability of earnings has decreased from an average of 32624.4 to 14432.2, which suggests that there was low variability in earnings in the post adoption period. Timely loss recognition is the measure for prevalence of large negative earnings, where large negative results suggest that the loss recognition is not timely in the post-adoption period. He found LNEG to be positive, which signifies that IFRS firms recognize losses more frequently in the post-adoption period than they do in the pre-adoption period. The study therefore concludes that accounting quality improves after the adoption of IFRS. Furthermore, under IFRS firms tend to exhibit higher values on a number of profitability measures, such as earnings per share (EPS).

Kaaya (2015) investigated the impact of International Financial Reporting Standards (IFRS) on earnings management. The study applies a desktop review to investigate the worldwide existing empirical research evidence on the impact of IFRS on earnings management post-IFRS adoption and in relation to other reporting standards and reports whether the results are indistinguishable between developed and developing economies. The findings reveal that the existing empirical crams and conclusions there on are mixed, inconsistent and difficult to generalise. This indicates the pressing need for country specific empirically tested studies of this nature. The study further stumbles on the fact that IFRS can indistinctly benefit both developing and developed markets when coupled with appropriate effective enforcement machinery. Substantially, the results entail that IFRS is a critical determinant for quality reporting, but not a 'prima facie' guarantor for quality reporting.

Sani and Umar (2014) assessed the extent to which the Nigerian banking industry complied with these requirements as captured in IFRS 1: First Time Adoption of IFRS. Using ex-post facto and survey research designs, the study sourced data from structured questionnaire and recent audited financial reports of the sampled banks. Qualitative Grading System (QGS) was employed in determining the degree of compliance of the banks while multivariate regression and Chi-squire test were used in measuring the effect of the factors responsible of such compliance and identified probable difficulties in the process respectively. The study concludes that Nigerian banking industry complied (semi-strongly) with the requirements of IFRS-framework, but the exercise is still faced with some challenges which include: lack of in-depth IFRS knowledge from the preparers of the financial reports. The study also found amenability, globalization and response to users' needs as factors significantly influencing the compliance level of Nigerian banks with IFRS-framework.

Eneje, Obidike & Chukwujekwu (2016) examined the effect of IFRS adoption on the mechanics of loan loss provisioning for Nigerian banks. They analyses how the change in the recognition and measurement of loan loss provision affects the accounting quality of banks thereby reducing the income smoothing behaviour of the money deposits in banks. In the model specified, loan loss provision for the current year was used as the dependent variable while non-performing loans at the beginning of the year, current changes in non-performing loans, current changes in total loans, earnings before taxes and loan loss provisions alongside with IFRS*Ebtllp were used as the independent variables. In line with the objectives of this study, secondary data were obtained from the money deposit banks annual reports and accounts covering the period from 2005 to 2015. Descriptive statistics and the ordinary least square multiple regression analytical method were used for the data analysis. It was found that the limitation to recognize only incurred losses under IAS 39 significantly reduces income smoothing and delays recognition of future expected losses. Based on the sampled bank dataset and results, this paper has shown that the post-IFRS has had significant effects on the mechanics of loan loss provisioning compared to the pre-IFRS era in the Nigerian Money Deposit Banks.

Ugbede, Mohd and Ahmad (2014) investigated International Financial Reporting Standards and the quality of banks' financial statement information: evidence from an emerging market – Nigeria. The study measures quality of financial statement information using earnings management, timeliness of loss recognition and value relevance. A total of twenty Nigeria banks covering a period of six years were investigated. Results suggest that IFRS adoption is associated with minimal earnings management and timely recognition of losses. Results marginally support IFRS adoption association with high value relevance of accounting information. Value relevance results were induced by capital market fraud. This study concludes that IFRS adoption engenders higher quality of banks financial statement information compared to local GAAP.

Kenneth (2012), in *Adoption of IFRS and Financial Statements Effects: The Perceived Implications on FDI and Nigeria Economy*, stated that the IFRS adoption is already an issue of global relevance among various countries of the world due to the quest for uniformity, reliability and comparability of financial statements of companies. The paper however investigated the effect of IFRS adoption on Foreign Direct Investment and Nigeria's economy. The population used consists of quoted companies in Nigeria Stock Exchange (Preparers) and Investment Analysts (Users). Stratified Random sampling method was adopted and primary data used to elicit responses with 123 structured questionnaires administered. Findings showed that IFRS have been adopted in Nigeria, but only a fraction of the companies has implemented with deadline for the others to comply. It is perceived that IFRS implementation will promote FDI inflows and economic growth. It was recommended that all stakeholders should endeavour to have full implementation to reap benefits of the global GAAP and principle-based standards.

In trying to elicit the opinion of stakeholders in financial reporting in Nigeria, regarding the necessity for the ongoing mandatory adoption of IFRS in Nigeria, Isenmila and Adeyemo, (2013) in *A Perception Based Analysis of the Mandatory Adoption of (IFRS) in Nigeria*, adopt the questionnaire survey method to seek respondents' views on the subject matter. Understanding firms' adoption of IFRS can allow for insights into the benefits and costs colligated with such adoption. Specifically, the study expected to be of significance to equity investors' group, governments and regulators, national standard setter, international standards setters and donor agencies, and various organizations engaged in accounting processes. The paper therefore employed the one way repeated measure analysis of variance, and the likelihood ratio test, otherwise referred to as G-test or maximum likelihood statistical significance test, in resolving the three hypotheses in the paper. The results show that there is a statistically significant difference in the perception of the stakeholders about the desirability of the mandatory adoption of IFRS. The stakeholders of interest were preparers of financial reports, auditors, capital market operators, and trainers of accounting students. Capital market operators were found to be the most optimistic about the success of the IFRS's adoption, while auditors seem to be the least optimistic. Additionally, we found that mandatory adoption of IFRS will have significant prospects, as well as challenges on the activities of stakeholders. We recommended *inter alia* that the capacity of regulators (Corporate Affairs Commission, Securities and Exchange Commission, National Insurance Commission, Central Bank of Nigeria, to mention but a few) must be strengthened so as to enable them to effectively deal with accounting and financial reporting practices of the regulated concerns, so that the mandatory adoption of IFRS in Nigeria does not become a mere labelled or nominal one.

Afego's (2011) paper on the *Stock Price Response to Earnings Announcements: Evidence from the Nigerian Stock Market* examines the stock market reaction to annual earnings information releases using data on the Nigerian Stock Exchange. Using the event study method, the reaction speed of the market to annual earnings information releases for a sample of 16 firms listed on the exchange is tested. Significant abnormal price reactions around earnings announcements suggest the earnings announcements contain value-relevant information. The paper discovered that the magnitude of the cumulative abnormal returns is dominated by significant reactions 20 days before the earnings release date, which suggests that a portion of the market reaction may be due to private acquisition and, possibly, abuse of information by insiders. The persistent downward drift of the cumulative abnormal returns, 20 days after the announcement, is inconsistent with the efficient markets hypothesis, and therefore suggests that the Nigerian stock market does not efficiently adjust to earnings information for the sample firms within the study period.

Ajao and Wemambu' study (2012), *Volatility Estimation and Stock Price Prediction in the Nigerian Stock Market*, aimed at understanding the Nigerian Stock Market with regards to volatility and prediction, to this effect the month end stock prices of four major companies from the period January 2005 to December 2009 were used as proxy. The study made use of the Autoregressive Conditional

Heteroskedasticity (ARCH) to estimate and find out the presence of volatility. According to the study, the presence of volatility in all the four stock prices was used, while stock price volatility was then regressed against stock prices, to determine their predictability. The results, however, revealed that out of the four companies, only two companies' stock prices were predicted by volatility in their stock prices, while past stock prices predicted current stock prices implying that the market does not follow a random walk. As a result of these, it is recommended that activities of corporate insiders should be properly checked, and in order to reduce the predictability of stock prices, information should be known and made public to all investors. Also policy makers are advised to review their economic policies and should be careful in their use of the Nigerian stock exchange as a barometer to reflect performance in the general economy, as our findings suggests that this could be misleading.

Asian and Dike (2015) investigate the differences in the quality of accounting information pre- and post-IFRS adoption by manufacturing firms in Nigeria over a five year period. Multiple regression analysis was performed on accounting quality variables and t-test was carried out for equality of mean to compare pre- and post-IFRS. Results indicate a decline in accounting quality using earnings management, value relevance, and timely loss recognition as independent variables. Earnings and book value of equity are less value relevant and timely loss recognition is less in post-IFRS compared to pre-IFRS period.

Okoye, Okoye and Ezejiofor (2014) assess the impact of International Financial Reporting Standards on stock market movement and the extent at which it can improve the position of corporate organization in the Nigerian capital market. Descriptive design was adopted using the stock price and shares traded during two years periods. SPSS Version 7.0 was also used to obtain the mean, variance and std. deviation. It has been observed that the adoption of IFRS in Nigeria will enhance credible financial statements that will also provide a basis for the strength of a corporate entity in capital market, hence is a welcomed development in the Nigerian economy.

Nengzih (2015) examines the impact of the adoption of IFRS on profitability rate and tax income for the period before and after IFRS adoption in the Indonesian Listed Companies by using paired samples t-test, using SPSS 20.0. Results show that the average ratio of companies' profitability is increasing after the adoption of IFRS. The profitability results also show that there is no change in the amount of profit before tax after the adoption of IFRS. IFRS are a set of principles-based standards that need full reasoning, clear judgment and deep understanding from their users. Lack of understanding and judgment will indicate that managers have bigger flexibility. The business environment and a fundamentally different situation also determine the form and content of accounting standards. This research is able to give a new paradigm in the adoption of IFRS, one that needs a comprehensive understanding for its users.

Upon the adoption of IFRS in 2012, researchers were keen to find out the economic consequences of this move. With the quest for the impact of IFRS on the Nigerian economy, Wilson and Ioraver (2013) investigated the economic consequences of IFRS adoption: evidence from a developing country. Their results showed that there is deficiency in experience, tutoring and apprehension of financial report preparers on how to bring into play the IFRS format and absent of IFRS treatment in auditing and financial accounting textbooks. They also suggested the pressing need to integrate IFRS into the curriculum of accounting student of higher learning. It calls as well for the attention of financial regulator and accounting professional bodies to be kept well informed in their IFRS's knowledge so as to sustain their professional proficiency.

Ezeani and Oladele (2012) carried out a research on the Adoption of IFRS to Enhance Financial Reporting in Nigerian. The fundamental reason for accepting these uniform standards in preparing and presenting the financial statements is, for the Nigerian Economy, fitting into International Best Practice of the world in terms of financial reporting. They found that there is a great deal of accounting and financial areas auditors and accountants need to focus in dispatching their duties and responsibilities, which have both positive and negative implications. One of their recommendations among many others is that the syllabus of Nigerian institution ought to be evaluated to include IFRS, so that accounting graduates will be up to date with IFRS standards and guidelines.

In 2014, Jonathan and Amos carried out a research on *Stakeholders' Perception of the Implementation of IFRS in Nigeria*. They discovered that significant variations exist in the perception of Stakeholders concerning the working of IFRS in the worth of financial report. There is no considerable discrepancy in their perception about the implementation of IFRS with the improvement of quality of investment decision and assessing the bases of return on investment. They recommended that relevant authorities should make sure that organizations comply with IFRS to ensure that the audit reports reflect the genuine position of the entities' financial circumstances. They also opined that government should strengthen the Financial Reporting Council of Nigeria with qualified personnel in order to satisfactorily perform its functions.

Akinleye (2016) examined the effect of international financial reporting standards (IFRS) adoption on the performance of money deposit banks in Nigeria. The study employed ratio analysis to investigate the nexus between IFRS adoption and performance of money deposit banks in Nigeria. Data used in the study were sourced from the financial statements of the selected banks for the period under study. Panel data analysis in the form of pooled OLS analysis, fixed effect analysis and random effect analysis alongside post estimation test such as restricted f-test and Hausman test were used. The results revealed that adoption of IFRS exert positive impact on performance of money deposit banks measured in terms of return on assets (β = 0.9057884, P = 0.347) and in terms of return on equity (β = 0.0655296, P = 0.975).

Muhibudeen (2015) investigated *International Financial Reporting Standard and Value Relevance of Accounting Information in Quoted Cement Firms in Nigeria*. This study empirically examines whether or not the mandatory adoption of IFRS has improved the value relevance of financial information in the financial statements of quoted cement companies in Nigeria. Descriptive statistics and regression were conducted to analyze the effect of IFRS adoption on the accounting information quality using Stata version 12. The study finds that the earning per share, book value of equity and share prices of the cement companies have significantly improved following IFRS adoption, although earnings per share proved more significant compared to book value of equity.

Yahaya, Yusuf and Dania (2015) examined *International Financial Reporting Standards' Adoption and Financial Statement Effects: Evidence from Listed Deposit Money Banks in Nigeria*. The objective of the paper is to examine the effects on financial statement of the adoption of IFRS in Nigeria. The empirical analysis used the binary logistic regression analysis. The results show that IFRS adoption has positively impacted some variables in the financial statement of banks, for example, profitability and growth potential. The paper also reveals that, given the fair value perspective of IFRS, the transition to IFRS brings instability in income statement figures.

Adebimpe and Ekwere (2015) studied *IFRS Adoption and Value Relevance of Financial Statements of Nigerian Listed Banks*. The study empirically examines whether or not the mandatory adoption of IFRS has improved the value relevance of financial information in the financial statements of commercial banks in Nigeria. Descriptive statistics and least square regression were conducted to analyse the effect of IFRS adoption on the accounting quality. The result indicates that the equity value and earnings of banks are relatively value relevant to share prices under IFRS than under the previous Nigerian SAS.

2.4. **Gap in literature**

Many research works have been carried out on IFRS and their adoption, but none of them have covered what this research work intends to cover. Ironkwe and Oglekwu (2016) carried out research on the effect of International Financial Reporting Standards

(IFRSs) on corporate performance. Muhammad (2012) examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. Eneje, Obidike & Chukwujekwu (2016) examined the effect of IFRS adoption on the mechanics of loan loss provisioning for Nigerian Banks. Ugbede, Mohd and Ahmad (2014) have investigated the International Financial Reporting Standards and the quality of banks' financial statement information: evidence from an emerging market – Nigeria. Akiwi's study (2010) aims at understanding the development of accounting in Ghana and how accounting has evolved over the years. Okoye, Okoye and Ezejiofor (2014) assess the impact of International Financial Reporting Standards on stock market movement and the extent at which it can improve the position of corporate organizations in the Nigerian capital market. Among these studies, none have studied the IFRS and the bank performance; this study, therefore, will fill the gap by studying the effect of IFRS on the performance of banks in Nigeria.

Methodology

An Ex-Post Facto Design was adopted because the data used in this study is already in existence in the Nigerian Stock Exchange. Data were collected in areas such as profits, liquidity, loan grants and market value of banks listed in Nigeria Stock Exchange for the period under review.

The population for the study is all 21 listed commercial banks (18 public limited liability companies and 3 government owned) that operate in Nigeria. A purposive sampling technique was used to select 8 banks that are listed on Nigeria Stock Exchange. The use of 8 banks is a suitable and fair sample since a sample of 0.05 proportion of the population is believed to be satisfactory in making inferences [Amadi, 2005]. The study employed a sample of 38% of the total population of 21 banks. It is therefore a representative sample.

This study settled for only profitability, liquidity, loan grant and market value. The study tested some of the indicators of bank performance as outlined and explained below:

1. *Profitability*: This is computed using the Earnings Before Interests and Tax (EBIT) Return on Equity Ratio: $\frac{EBIT}{Equity} \, x \; 100$. It is represented by ROE.

2. *Liquidity Indicators:* Loan to Deposit Ratio (LDEP): $\frac{\text{Total Loan}}{\text{Total Deposits}}$

3. *Loan grant indicators:* The total loan grants per year

4. *Market Value Indicators:*

Price earnings ratio, abbreviated as P/E is the best-known used indicator and it is often used in regular stock news. This is considered an indicator of the overall market valuation of the company. In a functioning market environment, it provides estimates concerning the time needed for the price per share to be paid by its return. Price earnings ratio (P/E) = $\frac{\text{market value of a share}}{\text{earnings per share}}$

3.6. **Method of analysis**

This study attempts to quantitatively measure the extent to which financial reports prepared under NGAAP and IFRS can be compared. To achieve this, a modified version of the Gray's Conservatism Index (Comparability Index) was used. Gray (1980, as cited in Cardozzo, 2008) first introduced the Index of Conservatism in comparing profits of several countries as a quantitative measure of differences between accounting practices. The study modified this Comparability Index by applying it to other key elements of financial statements such as profitability, liquidity, loan grant and market value prepared under NGAAP and IFRS. This index is calculated below:

1. Total Comparability Index $= 1- \frac{\text{Profit}_{IFRS} - \text{Profit}_{NGAAP}}{\text{Profit}_{IFRS}}$

2. Total Comparability Index $= 1 - \frac{\text{Liquidity}_{IFRS} - \text{Liquidity}_{NGAAP}}{\text{Liquidity}_{IFRS}}$

3. Total Comparability Index $= 1- \frac{\text{Loan Grant}_{IFRS} - \text{Loan Grant}_{NGAAP}}{\text{Loan Grant}_{IFRS}}$

4. Total Comparability Index $= 1 - \frac{\text{Market Value}_{IFRS} - \text{Market Value}_{NGAAP}}{\text{Market Value}_{IFRS}}$

The yardstick used in this study is IFRS for evaluating the effects on the elements of the corporate performance of the transition from the Nigerian GAAP to IFRS. The profitability, liquidity, loan grant and market value reported under IFRS are chosen as the denominators in order to assess the effects of IFRS on corporate performance.

Decision Rule

The neutral value of the index is one. This implies a no effect situation on the GAAP by IFRS. An index that is greater than one implies that the Nigerian Banks' profitability, liquidity, loan grant and market value are higher during GAAP than what were reported under IFRS. Conversely, an index that is lower than one suggests that the Nigerian Banks' profitability, liquidity, loan grant and market value are lower during GAAP than that what were reported under IFRS. However, the hypotheses are tested using the One Sample T-test computed with the help of the computer software called SPSS version 20.

Presentation and Analyses of Data

The analysis of the study was based on Banks' Comparability Index. The comparability indices on variables are shown on Tables 1, 2, 3 and 4 for profitability, liquidity, loan and market value respectively.

Table no. 1. Banks' Computed Comparability Index for Profitability

Banks	GAAP Method	IFRS Method	Difference	Comparability Index
	2011 (₦'000)	2012 (₦'000)		
Access Bank	7.36	15.26	7.9	0.48230668
Diamond Bank	14.78	17.39	2.61	0.84991374
Eco Bank	23.92	3.40	-20.52	7.03529412
Fidelity Bank	6.03	121.13	115.1	0.04978123
First Bank Nigeria	10.52	22.38	11.86	0.47006256
FCMB	- 9.91	9.41	19.32	-1.053135
UBA Plc	13.65	24.95	11.3	0.54709419
Zenith Bank Plc	15.36	21.47	6.11	0.71541686

Table no. 2. Banks' Computed Comparability Index for Liquidity

Banks	GAAP Method	IFRS Method	Difference	Comparability Index
	2011 (₦'000)	2012 (₦'000)		
Access Bank	88.62	143.62	55	0.61704498
Diamond Bank	62.72	62.96	0.24	0.99618806
Eco Bank	45.54	51.36	5.82	0.88668224
Fidelity Bank	45.49	33.01	-12.48	1.37806725
First Bank Nigeria	62.34	60.10	-2.24	1.03727121
FCMB	77.43	54.40	-23.03	1.42334559
UBA Plc	41.12	46.71	5.59	0.88032541
Zenith Bank Plc	44.86	49.69	4.83	0.90279734

Table no. 3. Banks' Computed Comparability Index for Loan Grant

Banks	GAAP Method	IFRS Method	Difference	Comparability Index
	2011 (₦'000)	2012 (₦'000)		
Access Bank	217,634,811.00	237,624,211.00	19989400	0.9158781
Diamond Bank	344,397,331.00	523,374,608.00	178977277	0.65803217
Eco Bank	410,150.00	546,873.00	136723	0.74999131
Fidelity Bank	255,257.00	152,257.00	-103000	1.67648778
First Bank Nigeria	1,144,461.00	1,316,407.00	171946	0.86938234
FCMB	319,020,875.00	350,489,990.00	31469115	0.91021394
UBA Plc	607,486.00	795,254.00	187768	0.76388927
Zenith Bank Plc	707,586.00	895,354.00	187768	0.7902863

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Table no. 4. Banks Computed Comparability Index for Market Value

Banks	GAAP Method 2011 (₦'000)	IFRS Method 2012 (₦'000)	Difference	Comparability Index
Access Bank	65.79	22.62	-43.17	2.90848806
Diamond Bank	176.74	120.37	-56.37	1.46830606
Eco Bank	113.04	207.14	94.1	0.54571787
Fidelity Bank	414.29	122.58	-291.71	3.379752
First Bank Nigeria	329.58	111.47	-218.11	2.95666996
FCMB	144.12	154.55	10.43	0.93251375
UBA Plc	93.18	152.81	59.63	0.60977685
Zenith Bank Plc	206.50	95.07	-111.43	2.17208373

Analysis of objectives

The mean comparability index was used in the next section to answer the research questions. In answering the research questions, we compare the value of the index to see whether it is equal to or greater than one. Results equal to one imply that there is no difference in the value and thus IFRS have no effect. However, the group mean and standard deviation is employed to answer the research questions while the t-test tested the hypotheses from SPSS analyses.

The One Sample T-test statistics was employed. The aim was to test whether there is any significant difference in the mean value of the comparability indices of the banks that participated in the study. The test is the difference between a sample mean and a known or hypothesized value. The group mean answered the research questions while t-statistics tested the hypotheses.

Effect of IFRS adoption affects banks' profitability

Research One: To what extent does IFRS adoption affect profitability of banks in Nigeria?

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Table no. 5. IFRS adoption effect on profitability of banks

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Index of Profitability	8	1.1371	2.45677	.86860

The mean comparability index of 1.1371 suggests that profitability under IFRS is less than that of Nigerian GAAP for all eight sampled banks. This means that the total profitability for all the banks under NGAAP is greater than that of IFRS. This implies that introduction of IFRS has negatively affected the profitability of the sampled banks.

Hypothesis One: IFRS adoption does not significantly affect profitability of Nigerian banks.

Table no. 6. Significant effect of IFRS adoption on banks' profitability

One-Sample Test

	Test Value = 1					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Index of Profitability	.158	7	0.879	.13709	-1.9168	2.1910

In table no. 6, the value of the probability level of significance is 0.879. Since the probability value is greater than 0.05, the null hypothesis is not rejected. This implies that the null hypothesis, that IFRS adoption does not significantly affect profitability of banks in Nigeria, is accepted.

Effect of IFRS adoption affects banks' liquidity

Research Two: To what extent does IFRS adoption affect liquidity of the banks in Nigeria?

Table no. 7. IFRS adoption effect on banks' liquidity

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Index of Liquidity	8	1.0152	.26859	.09496

The mean comparability index of 1.0152 suggests that liquidity under IFRS is less than that of Nigerian GAAP for all the sampled eight banks. This means that the total liquidity for all the banks under NGAAP is greater than that of IFRS. This implies that the introduction of IFRS has negatively affected the liquidity of the sampled banks.

Hypothesis Two: IFRS adoption does not significantly affect liquidity of the banks in Nigeria.

Table no. 8. Significant effect of IFRS adoption on banks' liquidity

One-Sample Test

	Test Value = 1					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Index of Liquidity	.160	7	.877	.01522	-.2093	.2398

The result on table no. 8 shows that the probability value is 0.877. Since the probability value is greater than the 0.05 value adopted in this study, we cannot reject the null hypothesis that IFRS adoption does not significantly affect liquidity of the banks in Nigeria.

Effect of IFRS adoption affects banks' loan grants

Research Three: To what extent does IFRS adoption affect loan grants of banks in Nigeria?

Table no. 9. IFRS adoption effect on banks' loan grants

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Index of Loan Grants	8	.9168	.31928	.11288

Table no. 9 shows that the comparability index of loan grants for the sampled banks is 0.9168. Since it is less than 1, it means that the total of loan grants under IFRS is greater than that of NGAAP. This suggests that IFRS brings about positive increase in total loan grants for the sampled banks.

Hypothesis Three: IFRS adoption does not significantly affect loan grants of the banks in Nigeria.

Table no. 10. Significant effect of IFRS adoption on banks' loan grants

One-Sample Test

	Test Value = 1					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Index of Loan Grants	-.737	7	.485	-.08323	-.3502	.1837

The result from table no. 10 shows that the value of the probability level of significance is 0.485. Since the probability value is greater than 0.05, the null hypothesis that IFRS adoption does not significantly affect loan grants of the banks in Nigeria is not rejected.

Effect of IFRS adoption affects banks' market value

Research Four: To what extent does IFRS adoption affect the market value of the banks in Nigeria?

Table no. 11. Significant effect of IFRS adoption on banks' market value

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Index of Market Value	8	1.8717	1.13465	.40116

The result of the mean comparability index on table no. 11 for market value is 1.8717. Since the mean value is greater than 1, it means that market value before NGAAP is greater than market value in the IFRS era. This implies that the IFRS adoption negatively affected the market value.

Hypothesis Four: IFRS adoption does not significantly affect the market value of the banks in Nigeria.

Table no. 12. Significant effect of IFRS adoption on banks' market value

One-Sample Test

	Test Value = 1					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Index of Market Value	2.173	7	.066	.87166	-.0769	1.8203

The result from table no. 12 shows a probability value of 0.066. Since the probability value is greater than 0.05, the null that IFRS adoption does not significantly affect the market value of the banks in Nigeria is not rejected.

Discussion of findings

The study showed that the introduction of IFRS has reduced the profitability of banks but it does not have significant effect on the profitability of the banks in Nigeria. This suggests that the value of the profitability was lower when reported using the IFRS accounting guidelines. This implies that IFRS introduction brought about a negligible fall in bank profit. Therefore, it can be said that the financial reports of banks give relatively the same information in both formats: IFRS and GAAP. Hence, the use of IFRS did not disrupt financial position of the banks. This study countered the Jensen's (2001) Value Maximisation Theory wherein firms can use one accounting principles or guidelines to maximise shareholders wealth. The present study contends that firms will not benefit from the use varying accounting principles at different accounting periods. The findings are in agreement with previous findings in Nigeria. As this study found reduced financial health for Nigerian banks (low profit, liquidity and market value and higher loan figure), the previous study agreed that IFRS means minimal earnings management and timely recognition of losses [Ugbede et al., 2014; Eneje et al., 2016]. In these cases, IFRS adoption has enthroned credible financial statements [Okoye et al., 2014].

Furthermore, the introduction of IFRS reduced the liquidity of banks, but it does not have significant effect on the liquidity of the banks in Nigeria. This advocates that the level of bank liquidity will relatively be the same as in IFRS financial report in 2012 as in NGAAP report of 2011. The liquidity position of the banks in Nigeria was not influenced by the 2012 IFRS adoption. As liquidity is one bank variable that aids the bank in meeting its obligations of demand deposit and loan grants, it is notable that the introduction of IFRS did not cause liquidity problem to the banks.

More so, the introduction of IFRS increased the loan grants of banks but it does not have significant effect on the loan grants of the banks in Nigeria. This indicates that IFRS adoption did not alter the financial positions of the bank loan reported in financial statements. Loan grant from banks reflects their level of financial intermediation. As bank loan increased with introduction of IFRS (though not significant), bank financial intermediation is expected to improve. This disagreed with the Jensen's (2001) Value Maximisation Theory. This connotes that banks cannot gain improved financial position on bank loans by changing from NGAAP to IFRS.

Finally, the introduction of IFRS reduced the market value of banks, but it does not have significant effect on the market value of the banks in Nigeria. This suggests that NGAAP and IFRS reports on the financial position of the banks in Nigeria are not far from each other. This disproved the assertion of the Jensen's (2001) Value Maximisation Theory wherein firms can use one accounting principles or guidelines to maximise shareholders wealth. Thus, it is proven that the use of IFRS did not alter the market value of banks. In total contrast to the present study was the findings IFRS adoption has positively impacted some variables in the financial statement of banks, for example, profitability and growth potential [Yahaya et al., 2015]. This study posits that IFRS results in higher reportage for bank profit as against the findings of the present study. The position of this study aligns with the view of a selected empirical works in Nigeria. As this study found reduced financial health for

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Nigerian banks (low profit, liquidity and market value and higher loan figure), the previous study agreed that IFRS means minimal earnings management and timely recognition of losses [Ugbede et al., 2014; Eneje et al., 2016]. In these cases, IFRS adoption has enthroned credible financial statements [Okoye et al., 2014].

Conclusion and recommendations

The comparability indices reported from the study have shown that the sampled banks have slightly higher mean values indicating that bank performance under GAAP appeared higher than after the adoption of the IFRS. However, these higher mean values do not have overall significant impact on the banks' performance. This means that banks performance is not affected by the introduction of IFRS in Nigeria. The study has shown that Nigerian environments can easily assimilate the introduction of the IFRS in the banking system. The reduced financial health for Nigerian banks (low profit, liquidity and market value and higher loan figure) connotes that IFRS means minimal earnings management and timely recognition of losses.

Since the adoption of IFRS did not alter bank profit, liquidity, loan and market value, reported in the subsequent year, it is recommended that banks and other quoted firms be encouraged to adopt IFRS in their financial statement. The need for uniformity in financial reporting will aid comparison of financial information across countries and encourage foreign investment. Since market value of the banks was not affected by IFRS adoption, quoted firms should be encouraged to adopt IFRS in their financial reporting. Again, the Financial Reporting Council and the various professional bodies in Nigeria should place more emphases on continuing professional education and training. As much as possible, the professional accountancy bodies should align their continuing professional education requirements with IFRS guidelines.

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EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON NIGERIAN ECONOMY

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Abstract

This study investigated the effect of exchange rate fluctuations on Nigerian economy. The fixed and floating exchange eras were compared to know the exchange rate system in which the economy has fairly better. The time period covered was 1970 to 2012. The study employed the ordinary least square (OLS) multiple regression technique for the analysis. The coefficient of determination (R^2), F-test, t-test, beta and Durbin-Watson were used in the interpretation of the results. The resulted revealed that about 85% of the changes in macroeconomic indicators are explained in the fixed exchange era. In the floating exchange era, 99% was explained while the whole periods has 73% explanatory power, hence the floating exchange era (1986 to date) is more effective in explaining economic trends in Nigeria. Also, exchange rate has significant positive effect on GDP during the fixed exchange rate era and negative effect during the eras floating and all-time; inflation has insignificant negative effect on GDP during the fixed exchange era; significant effect in floating era and significant negative effect in the all-time period; money supply has insignificant negative effect on GDP during the fixed exchange era; and significant positive effect during the floating and all-time period; and oil revenue has significant positive effect on the GDP in all the exchange rate regimes (floating, fixed and all-time) in Nigeria. The study thus concludes that exchange rate movement is a good indicator for monitoring Nigerian economic growth. So far, exchange rate has always been a key economic indicator for Nigeria. The floating exchange period has outperformed the fixed exchange rate in terms of contribution inflation, money supply and oil revenue to economic growth. This indicates that the floating exchange rate has been a better economic regime for sustainable economic growth in Nigeria.

From the findings, it is evident that oil revenue has positive effect in Nigeria and has remained the mainstay of the economy. It is thus recommended, among other things, that the positive exchange rate stock be monitored regularly, so as not to allow those that find exchange rate as an avenue of investment, such as banks and the public, carry out their business, a thing which is more devastating to the economy.

Keywords: *exchange rate fluctuation; inflation; money supply; oil revenue; gross domestic product.*
JEL Classification: F_{31}, F_{43}

1. *Introduction*

1.1. Background to the study

The principle of comparative advantage encouraged nations to specialise in the production of the products for which they can easily produce at cheaper rate and in abundance so as to exchange it with other products from other countries. This economic principle had encouraged economic liberalisation. Economic liberalisation allowed countries to seek exchange of resources (goods and services) with one another. Hence, the concept of exchange rate as a factor crept into the analysis of economic growth.

It did not feature in the first generation neoclassical growth model Solow (1957) and Rostow (1960) (as contained in Todaro & Smith, 2004) which focused on savings and investment. The fact that they were closed economy models dictated that there is no role for exchange rate or exchange rate volatility. The exchange rate is perhaps one of the most widely discussed topics in Nigeria today. This is not surprising given its macroeconomic importance especially in a highly import dependent economy as the Nigerian one [Olisadebe, 1991]. Thus, the use of exchange rate as an incentive to shift resources into export sector became a policy of interest as a way of boosting national income [Oyovwi, 2012].

In Nigeria, the exchange rate policy has undergone substantial transformation from the immediate post-independence period when the country maintained a fixed parity with the British pound, through the oil boom of the 1970s, to the floating of the currency in 1986, following the near collapse of the economy between 1982 and 1985 period [Akpan & Atan, 2012]. In each of these epochs, the economic and political considerations underpinning the exchange rate policy had important

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repercussions for the structural evolution of the economy, inflation, the balance of payments and real income.

Exchange rate is an important macroeconomic policy instrument. Changes in exchange rates have powerful effects on tradable and non-tradable of countries concerned through effects of relative prices of goods and services [Bobai, Ubangida & Umar, 2013]. More particularly, there has been an ongoing debate on the appropriate exchange rate policy in developing countries [Kandil, 2004]. The debate focuses on the degree of fluctuations in the exchange rate in the face of internal and external shocks. Exchange rate fluctuations are likely, in turn, to determine economic performance. In judging the desirability of exchange rate fluctuations, it becomes, therefore, necessary to evaluate their effects on the performances of macroeconomic variables in Nigeria.

1.2. **Statement of the problem**

The exchange rate of the naira was relatively stable between 1973 and 1979, during the oil boom (regulatory era). This was also the situation prior to 1970, when agricultural products accounted for more than 70% of the nation's gross domestic products (GDP) [Ewa, 2011]. However, as a result of the development in the petroleum oil sector, in 1970's the share of agriculture in total exports declined significantly, while that of oil increased. However, from 1981, the world oil market started to deteriorate and its economic crises emerged in Nigeria because of the country's dependence on oil sales for her export earnings. Since the Nigerian economy has remained import-dependent and oil-supported, the fluctuation of oil prices would have effect on Nigeria's oil revenue (the major source of income). This study thus is faced with the determining whether the exchange rate has any bearing on Nigerians economic growth and other macroeconomic policy variables.

More so, extant literatures on exchange rate fluctuation are mixed and conflicting. Similar studies are those of Aliyu (2009), Akpan (2008), Ogunleye (2008), Obiora and Igue (2006) Alaba (2003) Adubi and Okumadewa (1999) Egwaikhide (1999) etc. Aliyu (2009) for instance, studied the impact of oil price shock and exchange rate volatility on economic growth in Nigeria, Obiora and Igue (2006) investigated the likely effects of exchange rate volatility on US – Nigeria trade flows, while Ogunleye (2008) and Alaba (2003) focused on exchange rate volatility and foreign direct investment in Nigeria. Despite these efforts, volatility in exchange rate still persists. Could the persistence of the problem be due to inappropriate policies or gaps in the studies already carried out? This is one specific goal of this study. This study departs from the above studies because it focuses on

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exchange rate volatility and economic growth from 1970 to 2012 using annual data. It has wider coverage in addition to using a measure of exchange rate volatility.

1.3. **Objectives of the study**

The main objective of the study is to investigate the role of exchange rate fluctuations on Nigerian macroeconomic variables. The specific objectives include:

1) to examine the effect of exchange rate on the GDP;
2) to find out the effect of inflation on the GDP;
3) to determine the effect of money supply on the GDP;
4) to investigate the effect of oil revenue on the GDP.

2. ***Review of related literature***

2.1. **Conceptual literature**

Exchange rate volatility refers to persistent fluctuations of exchange rate, which often results in persistent depreciation of the home currency. Therefore, exchange rate volatility exposes economic agent to a greater exchange rate risk. However, exchange rate fluctuations can be anticipated or unanticipated. The unanticipated fluctuation has more significant effect as it determines aggregate demand through exports, imports, and the demand for domestic currency, and determines aggregate supply through the cost of imported intermediate goods [Kandil & Mirzaie, 2008]. In other words, an unanticipated exchange rate fluctuation boosts demand of exports and reduces imports level as it raises the price of importable goods and services.

The exchange rate between the two countries' currencies is always associated with cross border capital and fund movements, thereby with cross border flows of goods and services. Changes in the exchange rate, depreciation or appreciation of the currency, have a significant effect on trade flows and profound implications for the overall economic growth [Shehu & Youtang, 2012]. Domestic currency depreciation leads to an improvement in exports by the domestic country, and helps achieve positive trade balance.

2.2. **Theoretical framework**

The earliest and leading theoretical foundation for the choice of exchange rate regimes rests on the optimal currency area (OCA) theory, developed by Mundell (1961) and McKinnon (1963). This literature focuses on trade, and stabilization of the business cycle. It is based on concepts of the symmetry of shocks, the degree of openness, and labour market mobility. According to the

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theory, a fixed exchange rate regime can increase trade and output growth by reducing exchange rate uncertainty and thus the cost of hedging, and also encourage investment by lowering currency premium from interest rates. However, on the other hand, it can also reduce trade and output growth by stopping, delaying or slowing the necessary relative price adjustment process.

Later theories focused on financial market stabilization of speculative financial behaviour as it relates particularly to emerging economies. According to the theory, a fixed regime can increase trade and output growth by providing a nominal anchor and the often needed credibility for monetary policy by avoiding competitive depreciation, and enhancing the development of financial markets [see Barro & Gordon (1983), Calvo (2003), Edwards & Savastano (2000), Eichengreen et al. (1999), and Frankel (2003) among others].

On the other hand, however, the theory also suggests that a fixed regime can also delay the necessary relative price adjustments and often lead to speculative attacks. Therefore, many developing and emerging economies suffer from a “fear of floating” in the words of Calvo and Reinhart (2002), but their fixed regimes also often end in crashes when there is a “sudden stop” of foreign investment [Calvo, 2003] and capital flight follows, as was evident in the East Asian and Latin American crises and some sub-Saharan African countries.

Not surprisingly, there is little theoretical consensus on this question of regime choice and subsequent economic growth in the development economics literature as well. While the role of a nominal anchor is often emphasized, factors ranging from market depth (or the lack of it), political economy, institutions and so on often lead to inclusive suggestions as to which exchange rate regime is appropriate for a developing country [Frankel et al., 2001; Montiel, 2003; Montiel & Ostry, 1991]. The literature in development economics acknowledges the importance of the effects of the level of development on the relationship between regime and growth [see Berg, Borensztein & Mauro (2002), Borensztein & Lee (2002), Lin (2001), McKinnon & Schnabel (2003), and Mussa et al. (2000) among others].

2.3. **Empirical literature**

The literature is replete on the effect of exchange rate fluctuations on macroeconomic variables in Nigeria, but these empirical literatures have no consensus on the effect of exchange rate on growth. Thus, the divergence of the findings has necessitated further empirical researches aimed at proffering more robust explanations to the forex-growth nexus. The empirical literature on the subject is also replete in Nigeria. Hence, this review is mainly centred on Nigerian

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empirical research and findings. Some of the empirical works in Nigeria on the relationship between exchange rate and growth are shown below:

Akpan (2008) focused on the implications of exchange rate movement on economic growth. The ordinary least square (OLS) technique was adopted using time series data on exchange rate movement, volatility of exchange rate (EXCHR), labour force, gross domestic investment and technology. Volatility of exchange rate is measured by three years moving average of standard deviation of real exchange rate. The paper maintains that, in view of the positive relationship between exchange rate, volatility and economic growth in Nigeria, exchange rate policy should be designed to bridge the savings investment gap so as to enhance government revenue, as well as reduce the fiscal lacuna through the curtailing of deficit geared at increased and sustained economic growth.

Aliyu (2009) assessed the impact of oil price shock and real exchange rate volatility on real economic growth in Nigeria based on quarterly data from 1986, Q1 to 2007, Q4. The empirical analysis starts by analysing the time series properties of the data, which is followed by examining the nature of causality among the variables. Furthermore, the Johansen VAR-based co-integration technique is applied to examine the sensitivity of real economic growth to changes in oil prices and real exchange rate volatility in the long run, while the short run dynamics was checked using a vector error correction model. Results from ADF and PP tests show evidence of unit root in the data and Granger pair wise causality test revealed unidirectional causality from oil prices to real GDP and bidirectional causality from real exchange rate to real GDP and vice versa. Findings further show that oil price shock and appreciation in the level of exchange rate exert positive impact on real economic growth in Nigeria.

Akpokodje (2009) explored the exports and imports effects of exchange rate volatility with specific reference to the non-Communaute Financiere Africaine (non-CFA) countries of Africa during the period 1986-2006. The countries chosen included Ghana, Lesotho, Malawi, Nigeria, Sierra Leone, South Africa, Uganda and Zambia. A GARCH approach was employed to generate on annual basis the real exchange rate volatility series for each country. The study reveals a negative effect of exchange rate volatility on exports and imports in the selected African countries. The adverse effect of exchange rate volatility on exports in the sampled countries, as found in the study, suggests the need for policy interventions that will help to minimize and, where possible, eradicate exchange rate volatility.

Omojimite and Akpokodje (2010) investigated the effect of exchange rate reforms on Nigeria's trade performance during the period 1986-2007. A small positive effect of exchange rate reforms on non-oil exports through the depreciation of the value of the country's currency was found. It was also found that the structure of imports, which is pro-consumer goods, remained unchanged even after the adoption of exchange rate reforms. Exchange rate reforms were found not to constrain imports as anticipated. Rather, they stimulate imports, albeit insignificantly.

Ettah, Akpan and Etim (2011) focused on the effects of price and exchange rate fluctuations on agricultural exports (cocoa) in Nigeria. An export supply function for cocoa was specified and estimated using the Ordinary Least Squares Regression. Results showed that exchange rate fluctuations and agricultural credits positively affect cocoa exports in Nigeria. Results also revealed that relative prices of cocoa are insignificantly related to quantity of export, however, it has a negative sign, which is in line with the a priori expectation. The result, therefore, implies a positive significant effect of exchange rate volatility on cocoa exports in Nigeria. The study thus posits that since exchange rate has impacted positively on cocoa export in Nigeria, there should be a free market determination of exchange rate for export of cocoa in Nigeria.

Oladipupo and Onotaniyohuwo (2011) investigated the impact of exchange rate on the Nigeria external sector (the balance of payments position) using the Ordinary Least Square (OLS) method of estimation for data covering the period between 1970 and 2008. The study found that exchange rate has a significant impact on the balance of payments position. The exchange rate depreciation can actually lead to improved balance of payments position if fiscal discipline is imposed. It was also found that improper allocation and misuse of domestic credit, fiscal indiscipline, and lack of appropriate expenditure control policies due to centralization of power in government are some of the causes of persistent balance of payments deficits in Nigeria.

Polodoo, Seetanah and Padachi (2011) provided an investigation into the impact of exchange rate volatility on the macroeconomic performance of Small Island Developing States (SIDS). Taking a sample of 15 SIDS, the present study analyses econometrically the impact of exchange rate volatility on major macroeconomic variables, viz economic growth, external trade and foreign direct investment on the SIDS. The paper first constructs the z-score measure, developed by Wolf et al. (2003) as a measure of exchange rate volatility and employs data spanning the period 1999 to 2010 to analyse robust estimates in a static framework, as well as in a dynamic and longitudinal data framework using the Generalised Method of Moments. It also analyses the impact of exchange rate volatility on macroeconomic performance of the economies. The OLS with robust standard errors results indicate that exchange rate volatility impacts negatively on current account balance, but positively on the growth rate of the economies studied. In a dynamic setting, however, exchange rate volatility does not influence the macroeconomic variables.

Shehu and Youtang (2012) examined the causal relationship between exchange rate volatility (ERV), trade flows and economic growth of the sub-Saharan African countries with exclusive reference to Nigeria, which is considered a small open economy. The empirical study is based on a time series data over the period of 1970-2009. The results indicate significant effects of ERV on trade flows and economic growth of Nigeria. The finding support the preference of flexible exchange rate regime over the fixed regime as it facilitates more trade flows in Nigeria.

Adedayo (2012) made a methodological and analytical attempt to determine the precise channel of exchange rate pass-through in Nigeria. The study considered the interest rate and inflation rate channels and then employed a distributed lag model that incorporates a first order lag of exchange rate inclusive of current output level. This approach yield two-variants of the adapted model and the classical ordinary least square method was adopted for estimation. The empirical outcomes indicated that it is only previous exchange rate of naira opposite to US dollar that pass-through interest rate in Nigeria between 1970 and 2010, while neither the current exchange rate of naira opposite to the US dollar nor the previous exchange rate of naira opposite to the US dollar have passed-through inflation rate in Nigeria between 1970 and 2010.

Usman and Adejare (2012) empirically examined the effect of foreign exchange regimes on industrial growth in Nigeria using secondary data obtained from Central Bank of Nigeria Statistical Bulletin covering the period of 1985 to 2005. Multiple regressions were employed to analyze data on such variables as Gross Domestic Product, World Price Index, Per Capita Income, and Net Export. Exchange rate had significant effect on the economic growth with the Adjusted R2 of 69%. Following the outcome of this study, it is therefore concluded that the effect of using Foreign Exchange, World Price Index, Per Capita Income, and Net Export as an inducement for greater performance for stable economic growth are capable of giving stability in prices for manufactured goods.

Azeez, Kolapo and Ajayi (2012) examined the effect of exchange rate volatility on macroeconomic performance in Nigeria from 1986 to 2010. The model formulated depicts Real GDP as the dependent variable, while Exchange Rate (EXR), Balance of Payment (BOP) and Oil Revenue (OREV) are proxied as independent variables. It employs the Ordinary Least Square (OLS) and Johansen co-integration estimation techniques to test for the short and long runs effects respectively. The ADF test reveals that all variables are stationary. OLS results show that OREV and EXR are positively related, while BOP is negatively related to GDP. Further findings reveal that oil revenue and balance of payment exert negative effects, while exchange rate volatility contributes positively to GDP in the long run.

Akpan and Atan (2012) investigated the effect of exchange rate movements on real output growth in Nigeria. Based on quarterly series for the period 1986 to 2010, the paper examined the possible direction of the relationship between exchange rates and GDP growth. The relationship is derived in two ways using a simultaneous equations model within a fully specified (but small) macroeconomic model. A Generalised Method of Moments (GMM) technique was explored. The estimation results suggest that there is no evidence of a strong direct relationship between changes in exchange rate and output growth. Rather, Nigeria's economic growth has been directly affected by monetary variables. These factors have tended to sustain a pattern of real exchange rate, which has been unfavourable for growth. The conclusion is that improvements in exchange rate management are necessary, but not adequate to revive the Nigerian economy. A broad program of economic reform is required to complement the exchange rate policy adopted.

Oyovwi (2012) evaluated the effect of exchange rate volatility on economic growth in Nigeria based on the annual data from 1970 to 2009. A review of the literature reveals that exchange rate volatility can have either positive or negative effect on economic growth. The empirical analysis began with testing for stationarity of the variables by applying the Augmented Dickey-Fuller (ADF). This was followed by co-integration test of the model. The unit root test results show that all variables except exchange rate volatility were integrated at order one, that is I(1) while exchange rate volatility is integrated at order zero, that is I(O). Also, co-integration analysis indicated that variables are co-integrated. Employing the Generalised Autoregressive Conditional Heteroscedasticity (GARCH) technique to generate exchange rate volatility, the relationship between exchange rate volatility and economic growth was estimated. Findings further show that in the short run, economic growth is positively responsive to exchange rate volatility, while in the long run, a negative relationship exist between the two variables. The long run result also indicates that increase in oil price depresses economic growth in Nigeria. Thus, the income effect of rising oil price is not felt, while the output effect is evidenced in factory closure and re-location to neighbouring countries.

Umaru, Sa'idu and Musa (2013) investigated the impact of exchange rate volatility on export in Nigeria. The paper employed three models, viz: Ordinary Least Square (OLS); Granger causality test; and ARCH and GARCH techniques and also Augmented Dickey-Fuller technique was used in testing the presence of unit

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root. The results of unit root suggested that all the variables in the model are stationary at first difference, while causality test revealed that there is causation between export and exchange rate in the country, but the causation flows from exchange rate to export. Thus, exchange rate causes export. Furthermore, ARCH and GARCH results suggested that the exchange rate is volatile nevertheless export is found to be non-volatile. The study further showed that exchange rate is impacting positively on export, as shown by the regression results. The elasticity results revealed that, the demand for Nigerian products in the World market is fairly elastic.

Taiwo and Adesola (2013) investigated the impact of unstable exchange rate on bank performance in Nigeria using two proxies for bank performance, namely loan loss to total advances ratio and capital deposit ratio. Government expenditure, interest rate, real gross domestic product were added to exchange rate as independent variables. The two models specified show that the impact of exchange rate on bank performance is sensitive to the type of proxy used for bank performance. Loan loss to total advance ratio shows that fluctuating exchange rate may affect the ability of lenders to manage loans resulting into high level of bad loans, while capital deposit ratio does not have significant relationship with exchange rate.

3. *Methodology*

The study adopted secondary data sourced. Secondary data is the name given to data that have been used for some purpose other than that for which they were originally collected. The data for the study were generated from the CBN Statistical Bulletin, 2015.

The model used in this study is adapted from the exchange rate equation as used by Akpan and Atan (2012). In their model, exchange rate was used as an endogenous variable with inflation rate, growth rate of real GDP, and growth rate of money supply as the explanatory variables. As a modification, this study adapted from Akpan and Atan (2012) and then included inflation and oil revenue that are capable of influencing exchange rate in Nigeria. This could be stated mathematically as follows:

$$GDP = f\,(EXCH, INF, MS, OIL)$$

The econometric form of the model is given as:

$$GDP_t = \mu_0 + \mu_1 EXCH_t + \mu_2 INF_t + \mu_3 LnMs_t + \mu_4 LnOIL_t + \varepsilon_t$$

Where:
GDP = GDP at current market prices
EXCH = nominal exchange rate
INF = rate of inflation (this is the Nigerian Consumer Price Index)
MS = Money supply (M_2)
OIL = Oil revenue
Ln = Natural logarithm of the variables used to smoothen possible scholastic effect from variables at level.
t = time subscript

In other words, μ_0 is the constant while $\mu_1 - \mu_4$ are the coefficients of the relationships between the independent variables and the dependent variable. ε_t is the stochastic error term for the time period covered by the study.

Following the methodological style of Taiwo and Adesola (2013), the analysis of this study is broken into three parts, the first for fixed exchange regime (1970-1985), the second analysis (model) is the floating exchange regime (1986-2015), while the third analysis is the whole period (1970 to 2015).

The study employed the Ordinary Least Square (OLS) technique for the analysis. The coefficient of determination (R^2), F-test, t-test, beta and Durbin-Watson were used in the interpretation of the results. The decision rule for test of hypotheses is to rejects the null hypotheses for calculated significance value below 5% level of significance. Student T-Test measures the individual significance of the estimated independent variables. F-Test measures the overall significance. The coefficient is used to measure the individual contribution of the variables to variation in the dependent variable. Durbin Watson (DW) Statistics tests for auto correlation in the regression.

4. ***Analyses and interpretation of results***

The results of the analyses are presented in Table no. 1. The results comprised three multiple regression analyses. Column 1 is the result of multiple regression analysis for the effect of exchange rate on macroeconomic variables in the fixed exchange rate era (1970 to 1985), column 2 is for floating exchange rate era (1986 to 2015) while column 3 captured the whole time periods (1970 to 2015).

Coefficient of determination (R^2) and F-value are used to analyse overall impact of exchange rate changes on economic growth while the coefficients are used to test for the various hypotheses.

The Durbin Watson is used to test for the reliability of the models. The results from the analysis are 1.981 (fixed exchange rate era), 2.039 (floating exchange rate era) and 1.918 for all the periods. Since the results are approximately equal to 2, we conclude that the models have no autocorrelation and therefore are reliable. The results of the analyses are shown in Table no. 1 below:

Table no. 1. Multiple Regression of the Effect of Exchange Rate on Economic Growth for Three Periods (All = 1970-2015; Pre SAP = 1970-1985; Post-SAP = 1986-2015)

Model/Variable	**1**	**2**	**3**
Period	**1970–1985 (Fixed Exchange Era)**	**1986–2015 (Floating Exchange Era)**	**1870–2015 (All Time Period)**
Constant	-44.182*	0.275**	-82.162*
EXCH	0.654	-0.814*	-0.407**
INF	-0.411	0.321*	-0.251**
MS	-1.544	0.097*	0.453**
OIL	8.030**	0.725*	4.012*
Adjusted R2	0.852	0.985	0.732
DW	1.981	2.039	1.918
F-Value (Prob)	29.461 (0.020*)	12.064 (0.002*)	47.743 (0.000*)

* & ** = 1% and 5% level of significance

Source: SPSS 17 Analysis.

Interpretation of results

The extent to which changes in economic growth (GDP) can be explained by exchange rate, inflation, money supply and oil revenue is measured with the results of the coefficient of determination (R^2). The Adjusted R^2 is adopted to avoid overestimation of the influence. The results indicate that the AdjR^2 is 0.852 (fixed exchange rate era), 0.985 (floating exchange rate era) and 0.732 for all the periods.

From the result, it can be seen that about 85% of the changes in macroeconomic indicators are explained in the fixed exchange era. In the floating exchange era, 99% was explained while the whole periods have 73% explanatory power. This indicates that the floating exchange era (1986 to date) is more effective in explaining economic trend in Nigeria. This implies that floating exchange is a better economic policy than the fixed exchange era. However, the results suggest that exchange rate movement is a good indicator for monitoring economic growth in Nigeria.

F-Value (Prob) is used to test the significance of the overall results. The issue here is whether exchange rate movements and the control variables (INF, MS, and OIL) have significant effect on economic growth. The results are 29.461 (0.020*) for fixed exchange rate era, 12.064 (0.002*) for floating exchange rate era and 47.743 (0.000*) for all the periods. The results indicate that exchange rate movement has significant impact on economic growth in Nigeria in all the exchange rate management eras. This implies that exchange rate has always been a key economic indicator for Nigeria.

Hypotheses testing

Each of the hypotheses of the study is tested using the t-value, while the direction of the relationship is determined by the coefficient of the variables. The equation of the regression is shown below for each of the periods (exchange rate era).

Fixed Exchange Era:

$$GDP = -44.182^{*} + 1.7694EXCH - 0.411INF - 0.544lnMs + 8.030LnOIL^{**}$$

Floating Exchange Era:

$$GDP = 0.275^{**} - 0.814EXCH^{*} + 0.321INF^{*} + 0.097LnMs^{*} + 0.725LnOIL^{*}$$

All Time Period:

$$GDP = -82.162^{*} - 0.407EXCH^{**} - 0.251INF^{**} + 0.453LnMs^{**} + 4.012LnOIL^{*}$$

Effect of exchange rate on the GDP

Ho_1: Exchange rate fluctuation has no significant positive effect on GDP.

The coefficients of EXCH are 1.7694EXCH (for fixed exchange era), -0.814EXCH* (for floating exchange era), and -0.407EXCH** (for all-time periods). The results showed that the exchange rate has positive relationship with economic growth during the fixed exchange era and negative relationship in the floating and all the eras. This shows that during the fixed exchange era, a percentage increase in exchange rate increases GDP by 176%. However, during the floating exchange rate and all the periods, a percentage increase in exchange rate decreases the growth of GDP by 81% and 40%, respectively. The probability of the coefficients (indicating * and **) indicates that there is a significant relationship between exchange rate and GDP in each of the eras (floating, fixed and all-time).

Effect of inflation on the GDP

Ho_2: Inflation has no significant positive effect on GDP.

The coefficients of INF are -0.411INF (for fixed exchange era), 0.321INF* (for floating exchange era), and -0.251INF** (for all-time periods). The results showed that inflation has positive relationship with economic growth during the floating exchange era and negative relationship in the fixed and all the eras. This shows that during the floating exchange era, a percentage increase in inflation rate increases GDP by 32%. However, during the fixed exchange rate and all the periods, a percentage increase in exchange rate decreases the growth of GDP by 41% and 25%, respectively. The probability of the coefficients (indicating * and **) indicates that there is a significant relationship between inflation and GDP in floating era, as well as all-time period, but the fixed exchange era does not show significant effect of inflation on GDP.

Effect of money supply on the GDP

Ho_3: Money supply has no significant positive effect on GDP.

The coefficients of MS are -0.544LnMs (for fixed exchange era), 0.097LnMs* (for floating exchange era), and 0.453LnMs** (for all the periods). The results showed that money supply has negative relationship with economic growth during the fixed exchange era and positive relationship in the floating and all-time era. This shows that during the floating and all-time exchange eras, a percentage increase in money supply increases GDP by 97% and 45%, respectively, while a percentage increase in money supply decreases the growth of GDP by 54% in the fixed exchange rate era. The probability of the coefficients (indicating * and **) indicates that there is a significant relationship between money supply and GDP in floating era, as well as all the period but the fixed exchange era does not show significant effect of money supply on GDP.

Effect of oil revenue on the GDP

Ho_4: Oil revenue has no significant positive effect on GDP.

The coefficients of OIL are 8.030LnOIL** (for fixed exchange era), 0.725LnOIL* (for floating exchange era), and 4.012LnOIL* (for all-time periods).

The results showed that oil revenue has positive relationship with economic growth during the fixed, floating and all-time eras. This shows that a percentage increase in oil revenue increases GDP by 803%, 73% and 401% during the fixed, floating and all-time periods, respectively. The probability of the coefficients (indicating * and **) indicates that there is a significant relationship between oil revenue and GDP in each of the eras (floating, fixed and all-time). This implies that oil revenue has positive effect in Nigeria and has remained the mainstay of the economy.

5. *Conclusion and recommendations*

The results have shown that exchange rate movement is a good indicator for monitoring economic growth in Nigeria. This indicates that exchange rate has always been a key economic indicator for Nigeria. The floating exchange period has outperformed the fixed exchange rate in terms of contribution inflation, money supply and oil revenue to economic growth. This indicates that the floating exchange rate has been a better economic regime for sustainable economic growth in Nigeria. From the findings, it is evident that oil revenue has positive effect in Nigeria and has remained the mainstay of the economy.

Based on the results of this research and the realization of effect of Foreign Exchange on the Real Growth in Nigerian economy, the following recommendations are made:

1. Positive exchange rate stock should be monitored regularly, so as not to allow those that find exchange rate as an avenue of investment, such as banks and the public, carry out their business, which is more devastating to the economy.
2. Government should stimulate export diversification in the area of agriculture, agro-investment, and agro-allied industries, oil allied industries such will improve Foreign Exchange Earnings on Real growth in Nigerian economy.
3. Finally, the government should influence the foreign exchange rate, by positive economic reforms that will reduce the adverse effect of unstable foreign exchange rate on the Nigerian economy with respect to trade flow.

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EFFECT OF MONETARY POLICY ON ECONOMIC GROWTH IN NIGERIA: AN EMPIRICAL INVESTIGATION

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Abstract

The study investigated the effect of monetary policy on economic growth in Nigeria. The natural log of the GDP was used as the dependent variables against the explanatory monetary policy variables: monetary policy rate, money supply, exchange rate, lending rate and investment. The time series data is the market-controlled period covering 1986 to 2016. The study adopted an Ordinary Least Squared technique and also conducted the unit root and co-integration tests. The study showed that long run relationship exists among the variables. In addition, the core finding of this study showed that monetary policy rate, interest rate, and investment have insignificant positive effect on economic growth in Nigeria. Money supply however has significant positive effect on growth in Nigeria. Exchange rate has significant negative effect on GDP in Nigeria. Money supply and investment granger cause economic growth, while economic growth causes interest rate in Nigeria. On the overall, monetary policy explains 98% of the changes in economic growth in Nigeria. Thus, the study concluded that monetary policy can be effectively used to control Nigerian economy and thus a veritable tool for price stability and improve output.

Keywords: *monetary policy; monetary policy rate; money supply; exchange rate; lending rate; investment; Nigeria.*

JEL Classification: E_5

1. *Introduction*

Monetary policy is a deliberate action of the monetary authorities to influence the quantity, cost and availability of money credit in order to achieve desired macroeconomic objectives of internal and external balances [CBN, 2011]. The action is carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy. Thus, monetary policy as a technique of economic management to bring about sustainable economic growth and development has been the pursuit of nations and formal articulation of how money affects economic aggregates dates back the time of Adams Smith and later championed by the monetary economists. Since the expositions of the role of monetary policy in influencing macroeconomic objectives like economic growth, price stability, equilibrium in balance of payments and host of other objectives, monetary authorities are saddled the responsibility of using monetary policy to grow their economies.

Economic growth could be defined as the increase in the amount of goods and services in a given country at a particular time. This of course indicates that when the real per capita income of a country increases over time, economic growth is taking place. A growing economy produces goods and services in each successive time period, showing that the economy's productive capacity is at increase. Broadly, economic growth implies raising the standard of living of the people and reducing inequalities of income distribution [Jhingan, 2004].

In Nigeria, monetary policy has been used since the Central bank of Nigeria was saddled the responsibility of formulating and implementing monetary policy by Central bank Act of 1958. This role has facilitated the emergence of active money market where treasury bills, a financial instrument used for open market operations and raising debt for government, have grown in volume and value becoming a prominent earning asset for investors and source of balancing liquidity in the market.

Two major periods have characterized monetary policy in Nigeria: the post-and pre-1986 periods. Before 1986, direct monetary control was used in achieving price stability in Nigeria, while the emphasis shifted to market mechanisms after the 1986 market liberalization [Uchendu, 2009]. Prior to 1986, direct monetary instruments such as selective credit controls, administered interest and exchange rates, credit ceilings, cash reserve requirements and special deposits to combat inflation and maintain price stability were employed. The fixing of interest rates at relatively low levels was done mainly to promote investment and growth. Occasionally, special deposits were imposed to reduce the amount of excess reserves and credit creating capacity of the banks [Uchendu, 2009; Okafor, 2009].

In the above period, the monetary control framework seems to have failed to achieve the set monetary targets as their implementation became less effective with time. The rigidly controlled interest rate regime and the non-harmonization of fiscal and monetary policies may have contributed immensely to the adverse effect of constraining growth of the money and capital markets. In the Structural Adjustment Programme (SAP) era instead of relying on direct control mechanism for monetary policy, a shift to market-oriented reform was introduced for effective mobilization of savings and efficient resource allocation. Open market operation was the main instrument of the market-based framework.

In Nigeria, monetary policy has been based on a medium-term perspective framework in recent times. The shift was to free monetary policy implementation from the problem of time inconsistency and minimize over-reaction due to temporary shocks. Policies have ranged from targeting monetary aggregates to monitoring and manipulating policy rates to steer the interbank rates and by extension other market rates in the desired direction [Okoro, 2005; Uchendu, 2009]. The extent these strategies have helped to stabilize the economic and engender growth is of immense concern to policy makers and academics.

There have been various regimes of monetary policy in Nigeria. Sometimes, monetary policy is tight and at other times is loose, mostly used to stabilize prices. The economy has also witnessed times of expansion and contraction, but evidently, the reported growth has not been a sustainable one as there is evidence of growing poverty among the populace. The question is, could the period of growth be attributed to appropriate monetary policy? And could the periods of economic down turn be blamed on factors other than monetary policy ineffectiveness? What measures are to be considered if monetary policy would be effective in bringing about sustainable economic growth and development? These are the questions that remain unresolved in Nigeria, which this study would attempt to answer.

Existing empirical studies in Nigeria have not fully answered these questions. Moreover, the present study is unique, because, among the reviewed literature, none included investment in the study of monetary policy, when it is known that monetary policy equally targets to boost investment as it manipulates money supply. Furthermore, only Chuku (2009) has attempted to include the price-based nominal anchors of monetary policy as against the quantity-based nominal anchor used by most researchers in Nigeria. However, this study is an improvement on Chuku (2009), because it does not only include the MPR (used as MPR), but also incorporated other price-based issues such as lending rate in one model. More specifically, among the studies in Nigeria, this is the study that considers only the market-based monetary-based in the investigation of the effect of monetary policy on economic growth. Thus, this study clearly explained the effect of monetary policy on growth from the point of view of liberalised economy.

The main objective of the study is to investigate the effect of monetary policy on economic growth in Nigeria. The specific objectives include examining the effects of monetary policy rate, money supply, exchange rate, interest rate and investment on GDP in Nigeria.

2. *Review of related literature*

2.1. **Conceptual review**

2.1.1. *Concept of monetary policy*

Monetary policy is the deliberate use of monetary instruments (direct and indirect) at the disposal of monetary authorities such as central bank in order to achieve macroeconomic stability. Monetary policy is essentially the tool for executing the mandate of monetary and price stability. Monetary policy is essentially a programme of action undertaken by the monetary authorities, generally the central bank, to control and regulate the supply of money with the public and the flow of credit with a view to achieving predetermined macroeconomic goals [Dwivedi, 2005].

Monetary policy is one of the tools of controlling money supply in an economy of a nation by the monetary authorities in order to achieve a desirable economic growth. Governments try to control the money supply because most governments believe that its rate of growth has an effect on the rate of inflation. Hence, monetary policy comprises those government actions designed to influence the behaviour of the monetary sector. Monetary policies are effective only when economies are characterized by well-developed money and financial markets like developed economies of the world. This is where a deliberate change in monetary variables influences the movement of many other variables in the monetary sector.

Monetary policy has thus been known to be a vital instrument that a country can deploy for the maintenance of domestic price and exchange rate stability as a critical condition for the achievement of a sustainable economic growth and external viability [Adegbite & Alabi, 2013]. Monetary policy may be inflationary or deflationary depending upon the economic condition of the country. Contractionary policy is enforced to squeeze down the money supply to curb inflation and expansionary policy is to stimulate economic activity to combat unemployment in recession [Shane Hall, 2010].

Monetary policy consists of a Government's formal efforts to manage the money in its economy in order to realize specific economic goals. Three basic kinds of monetary policy decisions can be made about (1) the amount of money in circulation; (2) the level of interest rate; and (3) the functions of credit markets and the banking system [Ogunjimi, 1997].

The combination of these measures is designed to regulate the value, supply and cost of money in an economy, in line with the level of economic activity. Excess supply of money will result in an excess demand for goods and services; prices will rise and balance of payments will deteriorate. The challenge of monetary policy management rest wholly on monetary authorities, which have over the years been committed to its effective control. The performance of monetary policy has improved greatly in recent times – inflation has remained at moderate levels accompanied by high growth of domestic output. To sustain the efforts, there is need for appropriate collaboration with the fiscal authorities, as well as the development of confidence in inter-bank market and the necessary financial market infrastructure is still relevant.

2.1.2. *Concept of economic growth*

Economic growth is a sustained rise in the output of goods, services and employment opportunities with the sole aim of improving the economic and financial welfare of the citizens [Ogbulu & Torbira, 2012]. Hardwick, Khan and Langmead (1994) have defined economic growth as an increase in a country's productive capacity, identifiable by a sustained rise in real national income.

The economic growth is an important issue in economics and is considered as one of the necessary conditions to achieve better outcomes on social welfare, which is the main objective of economic policy. It is thus an essential ingredient for sustainable development. Economic growth in a country is proxied by Gross Domestic Product (GDP). Thus, in this study, it is conceptualized as the monetary value of all goods and services produced in an economy over a specified period, usually one year.

2.2. **Theoretical foundation**

The theoretical framework on which this study is based is the Keynesian IS-LM framework with a Philips curve superimposed on it to determine inflation. The mechanism is such that changes in monetary policy (usually specified as exogenous shifts in monetary aggregates) affect the money supply, which changes interest rate to balance the demand with supply [Chuku, 2009]. The changes in interest rates then affect investment and consumption, which latter cause's changes in output and eventually prices.

Modifying the classical quantity theory of money, the Keynesians believe that money supply, through its transmission mechanism, has indirect effect on the real GDP. Monetarists while agreeing to Keynes that in the short run economy does not operate at full employment, therefore expansionary monetary policy may work positively in the long-run, they support classists that rising money supply will increase inflation only. Therefore, they suggest that the policy must accommodate increase in real GDP without changing price level [LanLord, 2008].

Most of the modern economists are of the view that long-run growth depends upon enhancement of productivity. If an appropriate monetary policy is supplemented by the external environment of suitable liquidity, interest rate, robust demand, soft assistance from the world bank of the financial institutions and debt rescheduling would lead to sustainable economic growth in the long-run [Russell, 2010].

Monetarists strongly believe that monetary policy exact greater impact on economic activity as unanticipated change in the stock of money affects output and growth, i.e. the stock of money must increase unexpectedly for central bank to promote economic growth. In fact, they are of opinion that an increase in government spending would crowd out private sector and such can outweigh any short-term benefits of an expansionary fiscal policy [Adefeso & Mobolaji, 2010].

On the other hand, the concept of liquidity trap, which is a situation in which real interest rates cannot be reduced by any action of the monetary authorities, was introduced by Keynesian economics. Hence, at liquidity trap an increase in the money supply would not stimulate economic growth because of the downward pressure of investment owing to insensitivity of interest rate to money supply. John Maynard Keynes recommends fiscal policy by stimulating aggregate demand in order to curtail unemployment and reducing it in order to control inflation. While there are several studies on this debates between Keynesian and Monetarist in the developed countries, only fragmented evidence have been provided on this issues in the case of Nigeria [Adefeso & Mobolaji, 2010[. A case for the use of monetary policy will be further pursued with the view to understanding the effectiveness of monetary policy in enhancing economic growth in Nigeria.

2.3. **Empirical evidences**

Adegbite and Alabi (2013) examined the impact of monetary policy on economic growth in Nigeria, using secondary data from central bank of Nigeria statistical bulletin covering the period of 1970 to 2010. Multiple regressions were employed to analyze data on such variable money supplies; inflation, exchange rate, interest rate and gross domestic product were all found to have significant effects on the Economics Growth with the Adjusted R2 of 58%. Following the outcome of this study, it is, therefore, concluded that exchange rate stability has played a key role in keeping inflation low for most of the transition period, and that the range of monetary policy instruments available to the authorities has widened in recent years and this has been associated with more stable and predictable changes in money supply and the price level.

Chuku (2009) carried out a controlled experiment using a Structural Vector Autoregression (SVAR) model to trace the effects of monetary policy shocks on output and prices in Nigeria. The study assumed that the Central Bank cannot observe unexpected changes in output and prices within the same period. This places a recursive restriction on the disturbances of the SVAR. Three alternative policy instruments i.e. broad money (M2), minimum rediscount rate (MRR) and the real effective exchange rate (REER) were used. Overall, the study found evidence that monetary policy innovations carried out on the quantity-based nominal anchor (M2) has modest effects on output and prices with a very fast speed of adjustment. While, innovations on the price-based nominal anchors (MRR and REER) have neutral and fleeting effects on output. The study concluded that the manipulation of the quantity of money (M2) in the economy is the most influential instrument for monetary policy implementation.

Gul, Mughal, Rahim (2012) reviewed how the decisions of monetary authorities influence the macro variables such as GDP, money supply, interest rates, exchange rates and inflation. The method of least squares is used in the data. The sample was taken from 1995-2010 and included observations are 187. Result shows that interest rate has negative and significant impact on output. Tight monetary policy in term of increase interest rate has significant negative impact on output. Money supply has strongly positive impact on output that is positive inflation and output is negatively correlated, exchange rate also have negative impact on output which is show from the values.

Amassoma, Nwosa and Olaiya (2011) have appraised monetary policy development in Nigeria and also have examined the effect of monetary policy on macroeconomic variables in Nigeria for the period 1986 to 2009. The study adopted a simplified Ordinary Least Squared technique and also conducted the unit root and co-integration tests. The findings of the study showed that monetary policy have witnessed the implementation of various policy initiatives and has therefore experienced sustained improvement over the years. The result also shows that monetary policy had a significant effect on exchange rate and money supply while monetary policy was observed to have an insignificant influence on price instability. The implication of this finding is that monetary policy has had a significant influence in maintaining price stability within the Nigeria economy. The study concluded that for monetary policy to achieve its other macroeconomic objective such as economy growth there is the need to reduce the excessive expenditure of the government and align fiscal policy along with monetary policy measure.

Fasanya, Onakoya and Agboluaje (2013) have examined the impact of monetary policy on economic growth in Nigeria. The study used time-series data covering the range of 1975 to 2010. The effects of stochastic shocks of each of the endogenous variables are explored using Error Correction Model (ECM). The study showed that long-run relationship exists among the variables. In addition, the core finding of this study showed that inflation rate, exchange rate and external reserve are significant monetary policy instruments that drive growth in Nigeria.

Chimobi and Uche (2010) examined the relationship between Money, Inflation and Output in Nigeria. The study adopted co-integration and granger-causality test analysis. The co-integrating result of the study showed that the variables used in the model exhibited no long run relationship among each other. Nevertheless, money supply was seen to granger cause both output and inflation. The result of the study suggested that monetary stability can contribute towards price stability in the Nigerian economy since the variation in price level is mainly caused by money supply and concluded that inflation in Nigeria is to an extent a monetary phenomenon.

Onyeiwu (2012) examines the impact of monetary policy on the Nigerian economy using the Ordinary Least Squares Method (OLS) to analyse data between 1981 and 2008. The result of the analysis shows that monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment, but negative impact on rate of inflation. Furthermore, the findings of the study support the money-prices-output hypothesis for Nigerian economy. Obviously, the empirical studies on monetary policy and real output growth in Nigeria is still scanty.

3. ***Methodology***

The study is an ex-post facto research. The variables for the study are based on secondary data sources. The data are sourced from the CBN Statistical bulletin, 2017 edition. The time series covers the market based economic era when monetary policies are seen to be the main stand-post of economies across the world. Thus, the data covers 1986 to 2016. This study employs annual data on the monetary policy rate, rate of inflation, money supply, exchange rate, interest rate as the explanatory variables and the Gross Domestic Product as the proxy foe, economic growth as the dependent variable.

The Keynesian IS-LM function serves as a platform on which the empirical model is formulated as follows. Following McCallum (1991), the following equation is then derived. The present study followed this theoretical function in line with Fasanya, Onakoya and Agboluaje (2013) that employed real Gross Domestic Product; money supply; interest rate; inflation rate; exchange rate; external reserve in their study. The model also follows Adegbite and Alabi (2013), whom have regressed output of industrial production, inflation, money supply, exchange rate, and interest rate against economic growth proxied by GDP. The present study modified both models to include monetary policy rate in order to capture the core main tool of monetary policy that influences all other monetary policy targets. The study also replaced external reserves and output of industrial production with investment because investment is theoretically postulated to have direct influence from interest rates (lending and deposit rates), which the CBN monetary policy rates directly influence. The model of this study is thus:

GDP = f(MPR, MS, EXCH, INT, INV)

Where:
GDP = Gross Domestic Product at current market prices
MPR = Monetary policy rate
MS = Money supply proxied by the broad money supply (M2)
EXCH = Real exchange rate
INT = Interest rate proxied by bank lending rate.
INV = Investment to the productive sector proxied by Credit to the private sector.

The equation of the model is thus:

$$LnGDP = \beta_0 \; \beta_1 MPR + \beta_2 LnMS + \beta_3 EXCH + \beta_4 INT + \beta_5 LnINV + \mu$$

Ln = Natural Logarithm of the variables used to smoothen possible scholastic effect from variables at level. β_0 is the constant while $\beta_1 - \beta_5$ are the coefficients of the relationships between the independent variables and the dependent variable. μ is the stochastic error term for the time period covered by the study.

$\beta_1 < O$, $\beta_2 > 0$, $\beta_3 < 0$, $\beta_4 < 0$, $\beta_5 > 0$.

The study follows the arguments set out in the standard Mundell-Fleming-Dornbush model, which assumes *a priori,* that expansionary monetary policy reduces interest rates, depreciates the real exchange rate and increases prices (i.e.

inflation), money supply and the level of real output [Rafiq and Mallick, 2008]. Based on the expansionary assumption, the expected *a priori* is that:

- B_0 is to take care of the constant variable;
- β_1 is the coefficient of monetary policy rate (MPR), which is expected to be less than zero (β_2<0) due to its negative relationship with the gross domestic product in Nigeria;
- β_2 is the coefficient of money supply (MS), which is expected to be greater than zero (β2>o), because it is positively related to gross domestic product in Nigeria;
- β_3 is the coefficient of exchange rate (EXCH), which is expected to be greater than zero (β2>0) due to its positive relationship with gross domestic product in Nigeria;
- β_4 is the coefficient of interest rate (INT), which is expected to be less than zero (β2<0) due to its negative relationship with the gross domestic product in Nigeria;
- B_5 is the coefficient of investment (INV) which is expected to be greater than zero (β5>0), because it is positively related to gross domestic product in Nigeria.

Econometric regression estimation were performed to investigate the effect of monetary policy on economic growth. As most economic time series variables are found to exhibit nonstationary and lead to spurious or fake regression [Gujarati & Porter, 2009], the study employs the Augmented Dicker Test [Dickey & Fuller, 1979] to determine the stationary of the variables used. Then, the study adopts Johansen (1991) co-integration test to determine the long-run relationship, between the dependent and independent variables. The direction and significance of the effect of monetary policy on economic growth is then examined with the Ordinary least squares (OLS) regression model. The coefficient of determination (R^2), F-test, t-test, beta and Durbin-Watson were used in the interpretation of the results. Student T-Test measures the individual significance of the estimated independent variables. F-Test measures the overall significance. The coefficient is used to measure the individual contribution of the variables to variation in the dependent variable. Durbin Watson (DW) Statistics tests for auto correlation in the regression.

The Granger Causality test was also performed to determine the casual between monetary policy variables and economic growth (GDP).

4. ***Analyses and interpretation of results***

Table no. 1. ADF Unit Root test for Stationarity (with constant, no trend)

Variables		**At Level 1(0)**	**First Difference 1(1)**	**Order of Integration**	**Remark**
LnGDP		-1.311578	-4.115498*	1(1)	Stationary
MPR		-2.157415	-5.426151*	1(1)	Stationary
LnMS		-1.626638	-2.389475		Non Stationary
EXCH		-0.566438	-3.325049**	1(1)	Stationary
INT		-2.664755***	-5.148422*	1(1)	Stationary
LnINV		-0.349929	-3.740636*	1(1)	Stationary
Critical values	**1%**	-3.7076	-3.7204		
	5%	-2.9798	-2.9850		
	10%	-2.6290	-2.6318		

Notes:

1) Null hypothesis is the presence of unit root.

2) *1% level of significance, **5% level of significance, ***10% level of significance.

3) Unit roots tested at 5% level of significance.

4) Decision rule – The critical value should be larger than the test statistical value for unit root to exist

Source: *Researcher's Estimation using Eviews.*

The unit root/stationary test is shown on Table 1. Unit root analysis is a test conducted to ascertain if the variables under consideration are stationary. We take the following decision rule: if the absolute value of the Augment Dickey Fuller (ADF) test is greater than the critical value either at 1%, 5% or 10% level of significance at the order of zero, one, or two, it shows that variables under consideration are stationary, otherwise they are not. The results of the unit root test show that none of the critical values of the variables are greater than the ADF statistical values at level. However, LnGDP, MPR, EXCH, INT and INV are stationary at first difference [1(1)]. Only the LnMS is stationary at second difference [1(2)]. Since most of the variables are integrated at the same order, that is, at first order, we therefore suspect evidence of co-integration in the model, the result is presented below.

Table no. 2. Co-integration Test for Long-run Relationship between Monetary Policy and GDP

Sample: 1986 2016
Included observations: 29
Test assumption: Linear deterministic trend in the data
Series: LnGDP MPR LnMS EXCH INT LnINV
Lags interval: 1 to 1

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.861805	126.0999	94.15	103.18	None **
0.686450	74.64356	68.52	76.07	At most 1 *
0.579114	44.48888	47.21	54.46	At most 2
0.332831	21.98864	29.68	35.65	At most 3
0.257224	11.46612	15.41	20.04	At most 4
0.133804	3.734749	3.76	6.65	At most 5

*(**) denotes rejection of the hypothesis at 5%(1%) significance level
L.R. test indicates 2 co-integrating equation(s) at 5% significance level
Source: *Researcher's Estimation using Eviews.*

The results of the multivariate co-integration tests were validated using the Johansen (1991, 1995) approach. The Johansen's framework provides a number of co-integrating equations and estimates of all co-integrating vectors in the multivariate case. The Johansen co-integration test result is presented in Tables 4.2. The likelihood ratios were conducted to establish the number of co-integrating relations in each of the equations. Test results indicate the existence of two co-integrating equations in the equations at the 1% and 5% significance level. Thus, we conclude that there is long-run relationship between monetary policy and economic growth in Nigeria.

Table no. 3. Test of the Direction and Significance of the Relationship between Monetary Policy and GDP

Dependent Variable: LnGDP
Sample: 1986 2016
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MPR	0.017958	0.015539	1.155698	0.2602
LnMS	1.305625	0.383575	3.403832	0.0025
EXCH	-0.005700	0.002409	-2.366476	0.0272
INT	0.002401	0.015245	0.157502	0.8763
LnINV	0.223778	0.346292	0.646212	0.5248
C	1.341845	0.485953	2.761267	0.0114
R-squared	0.985763			
Adjusted R-squared	0.982527			
F-statistic	304.6520			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	0.924534			

Source: *Researcher's Estimation using Eviews.*

From Table 3 above, the adjusted coefficient of determination (Adj R^2) shows that about 98% of the changes in economic growth can be explained by monetary policy. This implies that monetary policy can be effectively used to control Nigerian economy. Additionally, the F-statistics (304.6520) has probability less than 5%, which indicate that monetary policy variables included in the model has combined significant effect on economic growth in Nigeria. This supports the result of the Adj R^2 and further confirms that monetary policy is a veritable tool for price stability and improved output.

However, the contributions and significance of the individual coefficients of the model is used to test for hypotheses for this study using the t-test. Each of the hypotheses is tested with the coefficient and the t-values.

$H0_1$: Monetary policy rate has no significant effect on GDP in Nigeria

The coefficient of the MPR is 0.017958, which means that monetary policy rate has positive relationship with GDP. This indicates that a unit increase in MPR will lead to 1.7% increase in GDP. The t value is 1.155698 with probability value of 0.2602. Since the p value is not less than 5%, we do not reject the null hypothesis and conclude that monetary policy rate has no significant effect on GDP in Nigeria.

$H0_2$: Money supply has no significant effect on GDP in Nigeria.

The coefficient of the LnMS is 1.305625, which means that broad money supply has positive relationship with GDP. This indicates that a unit increase in LnMS will lead to 130% increase in GDP. The t value is 3.403832 with probability value of 0.0025. Since the p value is less than 5%, we reject the null hypothesis and conclude that money supply has significant effect on GDP in Nigeria.

$H0_3$: Exchange rate has no significant effect on GDP in Nigeria.

The coefficient of the LnMS is -0.005700, which means that the exchange rate has negative relationship with GDP. This indicates that a unit increase in EXCH will lead to 0.57 % fall in GDP. The t value is -2.366476 with probability value of 0.0272. Since the p value is less than 5%, we reject the null hypothesis and conclude that exchange rate has significant effect on GDP in Nigeria.

$H0_4$: Interest rate has no significant effect on GDP in Nigeria.

The coefficient of the MPR is 0.002401, which means that the interest rate has positive relationship with GDP. This indicates that a unit increase in MPR will lead to 0.2% increase in GDP. The t value is 0.157502 with probability value of 0.8763. Since the p value is not less than 5%, we do not reject the null hypothesis and conclude that interest rate has no significant effect on GDP in Nigeria.

$H0_5$: Investment growth has no significant effect on GDP in Nigeria.

The coefficient of the MPR is 0.223778, which means that there investment has positive relationship with GDP. This indicates that a unit increase in MPR will lead to 22% increase in GDP. The t value is 0.646212 with probability value of 0.5248. Since the p value is not less than 5%, we do not reject the null hypothesis and conclude that investment has no significant effect on GDP in Nigeria.

At 5% level of significance, we found the following causal relations:

1. There is no causality between monetary policy rate and economic growth in Nigeria.
2. Money supply causes economic growth in Nigeria.
3. There is no causality between exchange rate and economic growth in Nigeria.

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4. Economic growth (GDP) causes interest rate in Nigeria.
5. Investment causes economic growth in Nigeria.

Table no. 4. Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Probability	Interpretation
MPR does not Granger Cause GDP	27	2.15534	0.14080	No causality
GDP does not Granger Cause MPR		2.31754	0.12318	
MS does not Granger Cause GDP	27	4.57481*	0.02243	Uni-directional causality (MS --> GDP)
GDP does not Granger Cause MS		0.30730	0.73868	
EXCH does not Granger Cause GDP	27	1.75029	0.19813	No causality
GDP does not Granger Cause EXCH		2.91096	0.07659	
INT does not Granger Cause GDP	2	0.45850	0.63841	Uni-directional causality (GDP --> INT)
GDP does not Granger Cause INT		5.20179*	0.01462	
INV does not Granger Cause GDP	27	5.37514*	0.01303	Uni-directional causality (INV --> GDP)
GDP does not Granger Cause INV		1.11691	0.34597	

Source: *Researcher's Estimation using Eviews.*

5. ***Conclusions***

The study has investigated the effect of monetary policy on economic growth. Monetary policy is found to have long-run relationship with the economic growth and can be effectively used to control Nigerian economy and thus is a veritable tool for price stability and improve output. In addition, the core finding of this study showed that monetary policy rate, interest rate, and investment have insignificant positive effect on economic growth in Nigeria. Money supply however has significant positive effect on growth in Nigeria. Exchange rate has significant negative effect on GDP in Nigeria. Money supply and investment causes economic growth, while economic growth causes interest rate in Nigeria. On the overall, monetary policy explains 98% of the changes in economic growth in Nigeria. However, it is shown that money supply and investment cause economic growth and economic growth causes interest rate in Nigeria.

Recommendations

Based on the findings made in the course of this study, the following recommendations are hereby suggested below:

1. The connection between monetary expansions and real economic growth capitalizes on imperfections in the public's information about prices. People respond inefficiently in the sense that under perfect information, they would not have altered their behaviour. At best, one party gains at another's expense. A central bank may periodically exploit this connection, but frequent attempts, as some seem to advocate, may ultimately distort the allocation of resources from productive uses to protective enterprises. Countries with high inflation rates tend to have larger financial sectors relative to GDP, not faster rates of economic growth In the long-run, money growth seems to translate only into proportionally higher inflation; it does not foster real economic growth or employment. Ultimately, a central bank can best contribute to a nation's economic health by eliminating the price uncertainties associated with inflation. However, if the central bank restrains from interventions, sharp fluctuations may result in the market.

2. Monetary policies should be used to create a favourable investment climate by facilitating the emergency of market based interest rate and exchange rate regimes that attract both domestic and foreign investments, create jobs, promote non-oil export and revive industries that are currently operation far below installed capacity. In order to strengthen the financial sector, the Central Bank has to encourage the introduction of more financial instruments that are flexible enough to meet the risk preferences and sophistication of operators in the financial sector.

3. For monetary policy to have a desired impact on the real economy and inflation, which is the fundamental objective of monetary policy, it is essential that changes in the short-term market interest rate should ultimately transform into changes in other interest rates in the economy (that is, interest rate changes are passed through to retail interest rates for loans and deposits), which then influence the overall level of economic activity and prices.

4. It is therefore prudent that in seeking to promote economic growth, Nigeria's banks should be committed to the mission of price stability, as well as improving the regulatory and supervisory frameworks to secure a strong financial sector for efficient intermediation.

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ANALYSIS OF THE DETERMINANTS OF DIVIDEND PAYOUT OF CONSUMER GOODS COMPANIES IN NIGERIA

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Abstract

The study examines the determinants of dividend payout of consumer goods companies listed on the Nigerian Stock Exchange. The Nigerian Stock Exchange has 28 listed consumer goods companies. Purposive sampling technique was used and a sample of nine consumer goods companies for a duration of ten years from 2006 to 2015 was selected. Secondary data were collected from audited financial statements of the companies from the websites of the selected companies. Dividend payout ratio was the dependent variable while the independent variables were market value, profitability, financial leverage, company size and previous year dividend payout. Descriptive statistics and multiple regressions were used. Results showed that company market value has significant positive effect on dividend payout; company profitability has positive, but insignificant effect on dividend payout; company leverage has negative and insignificant effect on dividend payout; company size has negative and insignificant effect on dividend payout; and previous year's dividend has significant positive effect on dividend payout. The study thus concluded that market value and previous year's dividend are the major determinants of dividend payout in consumer goods sector in Nigeria.

Keywords: *dividend payout; consumer goods companies; Nigerian Stock Exchange; profitability; leverage; stock market prices.*
JEL Classification: G_{11}, G_{35}

1. *Introduction*

1.1. **Background to the study**

Companies finance investment using either internal or external sources of funds. The internal sources include retained earnings and depreciation, while external sources can be new borrowings or the issue of stock. The decision of whether to use part of the profit (retained earnings) in financing investment is dividend decision. The decision that determines the proportion of external finance to be borrowed and the proportion to be raised in the form of new equity is capital structure decision. The managers of the companies are usually free to determine the level of dividend they wish to pay to holders of ordinary shares, although factors such as legal requirements, debt covenants and the availability of cash resources impose limitations on this decision. This is why many empirical studies will record variations in dividend behaviour across companies, countries, time and type of dividend.

Gill, Biger and Tibrewala (2010) had suggested that dividend should be paid in order to: (i) provide certainty about the company's financial wellbeing, (ii) be attractive for investors looking to secure current income, and (iii) help maintain market price of the share. However, managers choose dividend policy that can satisfy shareholders whose business they manage. To determine the percentage of net profit to be distributed to the shareholders as dividend is a serious challenge facing companies because of the alternative uses of such corporate profits. Nuredin (2012) noted that companies are confronted with the dilemma of dividend distribution and profit retention. Profit retention and its reinvestment for growth and expansion may seem a better option for corporate companies. However, dividend could be a means through which investors could detect financial performance problems and be in a better position to understand the future prospects of such firm.

Manufacturing companies in Nigeria, especially the consumer goods sector, is crucial to the growth and development of Nigerian economy considering its contribution to Gross Domestic Product [Inyiama, Okwo, &Inyiama, 2015]. The consumer goods sector has a total of twenty eight companies quoted on the Nigerian Stock Exchange with over ₦17, 536,945,110.80 traded by the sector (NSE, 2014). This level of huge investment will attract diversified nature of investors. Analysing factors that tend to influence dividend payout decisions of listed companies in the consumer goods sector becomes a worthwhile research.

1.2. **Statement of the problem**

The dividend payout pattern of Nigerian consumer goods companies is not smooth and consistent. Even some companies did not pay dividends in certain years of the period under study. Thus, the study tried to find the answer to why consumer goods companies are not able to smooth their dividends and which factors determine the dividend payout in the case of Nigeria.

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There is a divergence in theoretical explanations of dividend theory. The MM dividend irrelevance theory explains that companies' dividend payment cannot be influenced by any factor because of market competition. The empirical studies disagreed with these theories in different economies and sectors. However, among these studies, no one has specifically investigated the determinants of dividend policy or payout in the consumer goods sector of Nigerian economy. This work is a novel study in this regard.

Moreover, among the empirical studies reviewed by the researchers, none had considered share price as a possible determinant of dividend policy in Nigeria (see Table 1). The review also showed conflicting results on the influence of profitability, leverage, size and previous year dividend on the current year dividend payout. For instance, size has positive and significant effect on dividend payout in Rafique (2012), Malik, Gul, Khan, Rehman and khan (2013), Musiega, Alala, Musiega, Maokomba, Egessa (2013), Ahmed and Murtaza (2015), Kajola, Desu and Agbanike (2015). However, Kaźmierska-Jóźwiak (2015) noted that it has no effect, while King'wara (2015) gave a negative effect. These conflicts also apply to variables such as profitability, leverage and previous year dividend payouts. This therefore calls for further investigation, especially in Nigeria, where some of these variables has not been so combined.

The main objective of the study is to determine the factors that affect dividend payout in consumer goods companies quoted in Nigerian Stock Market. The specific objectives include:

1. To determine the effect of company market value on dividend payout.
2. To examine the effect of company profitability on dividend payout.
3. To investigate the effect of company leverage on dividend payout.
4. To find out the effect of company size on dividend payout.
5. To determine the effect of previous year's dividend payment on dividend payout.

2. ***Review of related literature***

2.1. **Conceptual framework**

2.1.1. *Concept of dividend policy*

The term dividend has a universal definition. It is the part of a company after tax profit that is distributed to the shareholders. Pandey (2005) defined dividend as the earnings distributed to shareholders. It is a pro rata distribution to the shareholders of the post-tax profit, which is declared by the company's board of directors [King'wara, 2015]. Furthermore, other authors supported that dividends are distributed equally among the shareholders [Zameer et al., 2013; Inyiama, Okwo & Inyiam, 2015]. In the view of Uwuigbe, Jafaru and Ajayi (2012), dividend is basically the benefit of shareholders in return for their risk and investment, which is determined by different factors in an organization. All these definitions show that the dividend is the part of a company's profit paid to the shareholders as returns for their investment risk.

Company dividends may come either as cash dividends in which case the company pays some cash amount per share to shareholders, or it may be in terms of stock dividends, in which case the company issues new stocks to existing shareholders in proportion to their existing shares [Zameer et al., 2013].

The decision on the amount to distribute as dividend is taken by the board of directors and is usually paid quarterly, semi-yearly or yearly depending on the policy of the firm [Badu, 2013]. Thus, payment of dividend is one of the corporate policies of the board of directors of companies. The dividend policy decisions of companies are the primary element of corporate finance policy [Uwuigbe, Jafaru & Ajayi, 2012].

Dividend policy is the regulations and guidelines that a company uses in determining when and how to make dividend payouts to shareholders [Nissim & Ziv, 2001]. Dividend policy, according to Lease, John, Kalay, Lowenstein and Sarig (2000), can be defined as the practice adopted by the management of companies in their dividend payment decision, which in other words is the size and pattern of cash distributions over time to shareholders. According to Nwude (2003:112), dividend policy is the guiding principle for determining the portion of a company's net profit after taxes to be paid out to the residual shareholders as dividend during a particular financial year.

The value earned from investment in company shares comes in forms of current dividend and capital gains. The essence of dividend policy is to manage shareholders wealth effectively [Nwude, 2003]. The proportion of profit distributed will affect funds available for further investment (if desirable). Thus, the essence of the dividend policy is to determine what percentage of companies' profits to be paid out as dividend or held back as retained earnings [Emekekwue, 2005]. Retained earnings are one of the important sources of financing of companies' projects, while dividend is the portion of a company's earnings that is distributed to shareholders as reward for investment. Thus, dividend avails the shareholders of ready disposable income. Investors in need of money will favour cash dividends, while those that desire growth favour retained earnings or stock dividends.

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2.1.2. *Conceptual review of the explanatory variables*

The concepts within the framework of this study include dividend and dividend policy, company value, company profitability, company leverage and company size. Dividend policy has been taken as the dependent variable on which other variables influence. The conceptual framework supposes that dividend policy is a function of market value, company profitability, company financial leverage, company size and the previous dividend paid out. This conceptual link is depicted in figure 1.

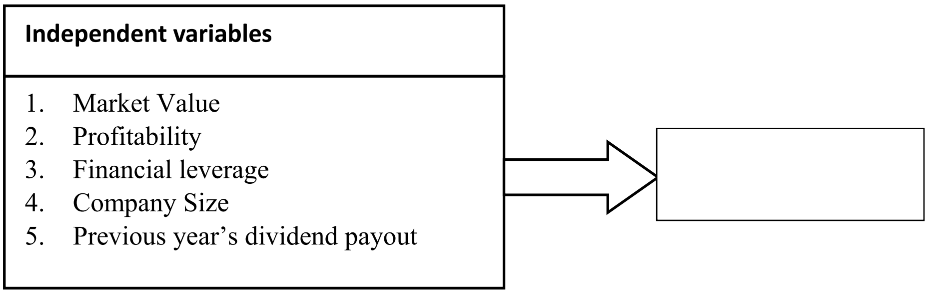

Figure no. 1. Conceptual framework of the study

Market value, which is measured by the share price of ordinary shares, is the measure of company value. It is measured by those variables that can determine the opinion of investors and shareholders on the worth of the company. According to Priya and Azhagaiah (2008), shareholders' value is represented as the market price of the company's common stock, which, in turn, is a function of the company's investment, financing and dividend decisions.

Profitability affects payment of dividends. This is because dividend is a part of the net profit declared by the company within a specific period, for example a financial year. Therefore, dividend will be distributed if the company makes profit [Refra & Widiastuti, 2014].

Financial Leverage: Debt to Equity Ratio is a ratio that reflects the company's ability to meet all its obligations. This is shown by some sections of their own capital, which is used to finance debt payment. There is a tendency for companies that have greater leverage ratio to pay smaller dividend, because the profit earned is used to pay off liabilities [Sunyoto, 2013]. Nguyễn (2016) posits that "the higher debts the companies use, the more control by creditors and the more financial risk they may face". This suggests that if the companies have higher financial leverage, the dividend ratio may be lower. This is because the companies must spend money and assets to pay creditors before paying dividend to shareholders. Besides, companies keeping high debts ratio may reduce their dividend ratio if they do not want to face high cost of fund when they increase funding from outside.

Company Size: The existing studies believe that company's size has a relationship with its dividend policy [Mehta, 2012]. Big size companies are more likely to pay dividend than the smaller size companies as they have more access to the capital market and thus are less dependent on the internal funds.

Previous Year Dividend Payment: The dividend is the amount of the company's net profit after tax, excluding the retained earnings, as a provision for the company. Generally, the magnitude of the current dividend is based on the amount of dividends paid years ago as companies are trying to maintain or even increase the dividend payout ratio from the previous levels. The higher the dividend payout in previous year, the steeper the amount of dividends received by shareholders of the current year [Ramli & Arfan, 2011].

2.2. **Theoretical framework**

The theoretical framework that explains dividend payout – company value nexus is divided into irrelevant dividend theory and relevant dividend theory. The irrelevant theory was explained by the Modigliani and Miller (M&M) theory, while the relevant theory was explained using five theories: Bird-in-Hand Theory, Tax Effect Theory, Clientele Effect Theory, Agency Theory and Signalling Theory.

Among these theories, the theoretical framework of this study is founded on the belief that clients' preference influences dividend payment. Thus the study is hinged on the Clientele Effect Theory of Black and Scholes (1974) which posit that based on individual experiences, every investor has his/her own personal view on whether to prefer high cash dividends benefits to earnings retention, and vice versa. This presupposes that client's preference influences dividend payout ratio. Thus, small investors may prefer cash dividend, while large investors hope for capital gains. Summarily, the theory favours dividend relevance hypotheses that dividend is important and some factors affect its payout.

The following are detail explanations of the theories:

2.2.1. *Irrelevance proposition*

Modigliani & Miller proposed the Dividend Irrelevant theory in 1958. The theory posits that it is only the companies' investment policy that can have impact on the share value of the company and hence requires to be given prominence. The model projected the view that the worth of a company is a function of its earnings power and cannot be influenced by, whether or not, company's earnings are divided between dividends and retained earnings. Hence, the division of earnings between dividends and retained earnings is irrelevant from the point of view of the shareholders. By this assertion, the MM model implies that dividend policy has no effect on a company's value, and thus managers cannot maximize shareholder's wealth with the use of dividend policy.

The only factor capable of affecting the valuation of a company is its earning power, which is determined by the company's investment policy and its future prospects. Thus, as soon as the investor has information on the investment policy, he will not need any additional input on the dividend history of the companies. If the investor desires more money than the dividend can offer, he can sell part of his investments to make up for the difference. Likewise, if an investor has no present cash requirement, he can reinvest the received dividend in the stock.

Notwithstanding the relevance of this theory, the critics of MM dispute the validity of the dividend irrelevance theory by challenging the assumptions used by MM. However, Lintner (1962) and Gordon (1963) have criticised the position of the MM model on the ground of the uncertainty characterizing the future earnings, the imperfections in the capital market and the existence of taxes.

2.2.2. *Relevance propositions*

Bird in Hand Theory: This theory opined that increased dividend payout decisions affect company value positively. It posits that dividends are more certain and thus less risky than capital gains. Therefore, investors would favour dividends in place of capital gains [Amidu, 2007]. The bird-in-hand hypothesis has been the traditional belief of academics and practitioners long before the MM proposition of 1961. The argument is that dividends should be valued in a different manner from capital gains due to existence of market imperfections and uncertainty. Hence, investors would prefer the "bird-in-hand" (cash dividends) to "two-in-the-bush" (future capital gains). Because dividends are supposedly less risky than capital gains, companies should set a high dividend payout ratio and offer a high dividend yield to maximize stock price. Despite the criticisms of this hypothesis by many researchers, the works of Lintner (1962), Walter (1963) and Gordon (1963) have supported it.

Tax Effect Theory: This theory initiated by Litzenberger and Ramaswamy (1979, 1982) posits that investors would prefer lower payout companies for tax reasons. It asserts that it is expected that low-dividend payout ratios will lead to a lower rate of returns, which in turn will increase the market value of the company and vice versa. It argued that the influence and treatment of taxes might have effect on income to be paid out by a company. Unlike dividend, long-term capital gains permit the investor to postpone tax payment pending the sale of the shares. The time value effect makes tax paid immediately to have a higher effective capital cost than the same tax paid in the future. In most countries, the tax rates, which apply to dividends, differ from capital gains tax rate. Thus, investors in different tax groups will have different view on whether to accept cash dividends or get capital gains (by selling the securities).

Clientele Effect Theory: Black and Scholes (1974) propounded this theory. They posit that each investor has his/her own personal view about the preference between high cash dividends benefits or their retention according to the tax category into which he/she falls. Thus, while some investors prefer companies with high cash dividends, others may prefer companies with low cash dividends or without any cash dividend and retention of profits for investment. Therefore, investors will invest only in companies, which have dividend policy that is in line with their needs, requirements and conditions. Hence, every company has its own kind of investors. A company that pays no or low dividends tend to satisfy the needs of its own group of investors while those that pay high dividends equally satisfy the needs of its investors. Dividend payment should therefore not have effect on the value of share. This argument assumes that there are enough investors in each dividend clientele to allow companies to be fairly valued, no matter what their dividend policy is. This is known as the Clientele Effect.

Agency Theory: Jensen and Meckling (1976) propounded this theory. It posits that dividend policy is determined by agency costs arising from the separation of ownership and control. The theory argues that managers of companies might want to implement dividend policies that satisfy their private benefits and personal interests rather than ones that maximise the value of shareholders. As shareholders are mindful of this fact, they will want to develop strategies of controlling managers' behaviours [Jensen & Meckling, 1976]. Constant dividend payments will decrease the free cash flows available to the managers and consequently ensures that managers will maximize shareholders' wealth rather than employing the funds for their private benefits [DeAngelo & DeAngelo, 2006].

Signalling Theory: Managers use the change in cash dividends distribution rates as a way of delivering information to investors about the company. The foundation of the argument is the information asymmetry between managers (insiders) and outside investors. The managers tend to have private information about the current and future prospects of the company, which outsiders (shareholders) do

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not have. This theory avers that managers are motivated to communicate this information to the market. In the views of Bhattacharya (1979), John and William (1985), and Miller and Rock (1985), information asymmetries between companies and owners may induce a signalling role for dividends. They show that dividend payments communicate private information about the companies to the outsides in a fully revealing manner. The core of this theory is that companies must make regular payment of dividend. Announcement of increased dividend payment is received as good news to the investors and accordingly share price reacts favourably, and vice-versa. Only good quality companies can send signals to the market through dividends, poor quality companies cannot mimic these because of the dissipative signalling cost (for e.g. transaction cost of external financing, or tax penalty on dividends, distortion of investment decisions).

These theories suggest that among others factors, market value, earnings, size, leverage and even previous dividend payouts will determine current dividend payout ratio. These factors create certain form of information that, when reacted to, determines the level and nature of dividend payout of the companies.

2.4. **Empirical studies**

Webometric Analysis on determinants of dividend payouts of consumer goods companies in Nigeria is as follows:

S/N	NAME OF AUTHOR AND YEAR	SCOPE	VARIABLES	METHOD OF ANALYSIS	FINDINGS
1	Ahmed & Murtaza, (2015)	Thirty eight selected companies from Four sectors (Oil, Cement, Energy and Sugar) of Karachi Stock Exchange, Pakistan, 2003-2011	Dividend Payout Ratio = f (Company Size, Liquidity, Profitability, Leverages, and Earnings Per Share).	Descriptive Statistics and Pooled Least Square Technique	Dividend payout has significant relationship with liquidity, earnings per share, leverage, company size
2	Rafique (2012)	Multivariate Regression on Listed Non-Financial Companies on Karachi Stock Exchange, Pakistan	Dividend Payout = f(Earnings, Company Size, Growth, Profitability, Corporate Tax and Financial Leverage)	Descriptive Statistics and Multivariate Regression Technique	Only corporate Tax and company's size had significant relationship with dividend payout
3	Enekwe, Nweze & Agu (2015)	Panel estimation of select quoted cement companies in Nigeria, 2003-2014	1) Payout = f(Capital Employed); 2) Payout = f(Return on Assets); 3) Payout = f(Return on Equity)	Descriptive Statistics and Simple Linear Regression Analysis	Dividend Payout ratio has positive relationship with ROCE, ROA and ROE

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4	Kajola, Desu & Agbanike (2015)	Twenty-five listed non-financial companies in Nigeria between 1997 and 2011	Dividend Payment Policy = f(Profitability, Size, Leverage, Liquidity, Tangibility, Growth Opportunity, and Volatility in Dividend Payout)	Descriptive Statistic; Panel data, Fixed and Random Effect Models	Profitability, Size, Leverage and volatility in dividend payout are factors that affect dividend payout policy
5	Fitri, Hosen & Muhari (2016)	Panel data analysis of Listed companies at Jakarta Islamic Index, Indonesia	Dividend Payout = f(Return on Assets, Debt to Equity ratio, Asset Growth and Dividend Payout Ratio in a Year before)	Panel data Regression	Return on Asset and DPR in a year before have significant positive effect, while Asset Growth showed significant negative effect. However, Debt to Equity Ratio has no significant effect
6	Mehta (2012)	Multiple regression on listed companies in the areas of real estate, Energy, Construction, Telecommunication, Health care and Industrial sectors in United Arab Emirate (UAE), 2005-2009.	Dividend policy = f(Profitability, Risk, Liquidity, Size and Leverage)	Correlation and Multiple Regression Technique	Profitability and size are the determinants of dividend payout decision of UAE companies
7	Zhong (2016)	Panel data on listed banks in China, 2010-2013	Dividend Payout levels = f(Profitability, Growth ability, Operation Capacity, Debt levels and Liquidity of Assets)	Multiple Linear Regression Analysis	Positive relationships for profitability and liquidity of assets and negative relationship for debt levels.
8	Nnadi, Tanna & Kiabel (2013)	Acquired and non-acquired banks in United Kingdom	Dividend Policy f(Liquidity, % of Insider shareholdings, Tax liabilities, capital and finance Structures as measured by debt equity ratio and debt +equity/total asset, Size, Profitability (ROE+EPS), Growth (PE) or Market to Book value and Cumulative Standardized Abnormal Returns	Descriptive statistics and Ordinary Least Square Simple Regression Technique	Level of risk, liquidity and composition of financial structure are important factors in the dividend policy of banks, while Price Earnings Ratio is fundamental to non-acquired banks.
9	Nguyen (2015)	panel data of 156 companies listed in HOSE from 2009-2013 in Vietnam	Dividend Payout Ratio = f{Free Cash Flow, Collateralisable Assets (Fixed Assets/Total Assets), Company Size, Company	Panel Data; Pooled Ordinary Least Square (Pooled OLS)	Financial Leverage, Return on Asset and Earnings per share have

			Growth, Financial Leverage, Profitability (ROA, ROE and EPS), Liquidity (Current Assets/Current Liabilities) and DPR on EPS (Cash Dividend /EPS)}	technique; Fixed Effect Model (FEM and Random Effect Model (REM)	significant positive relationship with dividend payout; while Leverage and ROE are negatively significant
10	Musiega, Alala, Musiega, Maokomba, Egessa (2013)	30 non-financial companies for 5 years 2007-2011 in Nairobi Securities Exchange Kenya	Dividend Payout Ratio = f(Profitability, Growth, Current Earnings, Liquidity; Size and Business Risk) Size and Business Risk are taken as moderating variables	Descriptive statistics and Multiple Regression analysis were used to analyze the data collected	Return on Equity, Current Earnings, Companies' Growth Business Risk and Size are determinant of dividend payout.
11	Demirgunes (2015)	Panel data derived from Financial Statements of Borsia Istanbul listed companies from 2002-2012 in Turkey	Target dividend Payout Ratio = f(Profitability, Liquidity, Growth, Risk, Market Expectations and Taxation)	Panel ARDL methodology	Long run significant negative relationship between TDPR and Profitability, Growth and Corporate Tax while factors related to risk and market expectations has significant positive effect on TDPR. However, profitability seems to have significant positive effect on TDPR in the short run.
12	Kaźmierska-Jóźwiak (2015)	Non-financial companies listed on the Warsaw Stock Exchange in Poland from 2000 to 2012	Cash Dividend Payout. = f(Profitability, Liquidity, Size, Leverage, and Risk)	Panel Data Analysis, Fixed and Random Effects Approaches	There is an evidence of significant negative relationship between profitability and leverage while there is an insignificant positive relationship between the size of a company, its P/E ratio, and dividend payout.
13	Moradi, Salehi, & Honarmand (2010)	73 listed companies in the Tehran Stock Exchange between 2000 and 2008. Iran	Dividend Payout Ratio = f(Company Size, Beta Rate, Profitability, Rate of Retained Earnings, P/E	Multiple Regression Analysis	There is direct relationship between dividend and profitability

			Ratio, Debt/Equity Ratio, Growth of Accumulated Earnings and Percentage of Dividend Distribution)		while there is reverse relationship of these factors with P/E ratio, Beta Rate, and debt ratio. There is no relationship between Dividend Policy and Rate of Retained Earnings.
14	King'wara (2015)	30 Kenyan companies listed on the Nairobi Securities Exchange. The period of the study is five years from 2008-2012.	Dividend payout ratio = f(earnings, ratio of retained earnings to total assets, company size, growth opportunities, debt ratio or leverage and market-to-book ratio)	Tobit regression	Dividend payout ratio is impacted negatively by the growth rate, debt ratios and company size and positively by earnings, market-to-book ratio and retained earnings to total assets ratio.
15	Badu (2013)	Select listed financial institutions in Ghana Stock Exchange from 2005 to 2009	Dividend Payout strategy = f(Profitability, Growth, company Age, Non linearity of Age,	Descriptive statistics, correction, Fixed and Random effect analyses.	Major determinants of dividend policy of financial institutions in Ghana are age of the company, collateral and liquidity.
16	Musa (2009)	A cross-section of 53 companies quoted on the Nigerian Stock Exchange 1993 to 2002.	Dividend Payout = f(previous dividend, current earnings, cash flow, investment and net current assets, and three non-metric variables- growth, company size and industry classification)	parsimonious multiple regression model	The five metric variables have significant aggregate impact on dividend policy of the quoted companies.
17	Inyiama, Okwo & Inyiama (2015)	Nigeria Breweries Plc and Guinness Nigeria Plc, from year 2000 to 2013.	Dividend Per Share = f(Market Price of Share, Total Assets, Net Asset Value Per Share, Retained Earnings and Earnings Per Share)	Granger causality, and Johansen Cointegration	Dividend Per Share was significantly positively influenced by Earnings Per Share and Market Price of Equity Shares, while Net Asset Value Per Share and Total Assets exert a negative but insignificant influence on DPS. Retained Earnings

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					has a positive but insignificant effect on DPS.
18	Alzomaia & Al-Khadhiri (2013)	105 non- financial companies listed in Saudi Arabia stock exchanges from 2004 to 2010	Dividends per share = f(Earnings per share, Previous Dividends, Growth, leverage, risk & Size)	OLS regression technique	Current earnings per share and past dividend per share are major determinants of dividend payments.
19	Odesa & Ekezie (2015)	cross sectional data from 131 quoted companies in Nigeria	Dividend Policy = f(Shareholders Structure, Investment Opportunity, Debt, Corporate Performance, past dividend paid)	multiple Regression analysis	Investment opportunity is negatively related to dividend policy while debt, ROE, shareholder structure, and last dividend paid have a positive significant relationship with dividend policy.
20	Baah, Tawiah & Opoku (2014)	12 companies from different sector listed in Ghana Stock Exchange between 2006 and 2011.	Payout Ratio = f(Share Price Volatility, Profit after Tax, Earning per Share, Size, Growth)	Ordinary Least Square (OLS) regression model	Main determinants of dividend policy are return on equity, profit after tax and size of the company.
21	Malik, Gul, Khan, Rehman & khan (2013)	100 financial and non-financial companies listed on Karachi stock Exchange over the period 2007 to 2009	dividend paid per share = f(liquidity, leverage, earning per share, and size)	Probit model estimation and panel OLS Regression	liquidity, leverage, earning per share, and size are positively related to dividend, whereas growth and profitability are found to be insignificant determinant of dividend policy

The review of literature has shown that dividend payout can be in forms of cash or stock. Dividend, however, is the part of a company's profit that is distributed to shareholders. Some theories that explain the reasons for dividend payment include the agency, clientele, tax effect, bird-in-hand, and signalling effect theories. However, MM dividend irrelevance theory explains that companies' dividend payment cannot be influenced by any factor because of market competition. The empirical studies have disagreed with these theories in different economies and sectors. However, among these studies, no one has specifically investigated the determinants of dividend policy or payout in the consumer goods sector of Nigerian economy. This work is a novel study in this regard.

A good number of the studies reviewed are from different contexts other than Nigeria [Ahmed & Murtaza, 2015 and Rafique, 2012 from Pakistan; Fitri, Hosen & Muhari, 2016 from Indonesia; Moradi, Salehi & Honarmand, 2010 from Iran; Alzomaia & Al-Khadhiri, 2013 from Saudi Arabia, Nguyen, 2015 from Vietnam, Zhong, 2016 from China; Demirgunes, 2015 from Turkey etc.]. The studies from Nigeria are scanty [Musa, 2009; Inyiama, Okwo & Inyiama, 2015; Odesa & Ekezie, 2015; Enekwe, Nweze & Agu, 2015; Kajola, Desu & Agbanike, 2015]. This calls for more studies in Nigeria. This gap in literature in Nigerian context will be reduced by this study.

More so, the conclusions from the extant literature are divergent. Most of the works did not agree on the effect of profitability on dividend policy. For instance, return on asset and return on equity tend to produce conflict findings; while Kaźmierska-Jóźwiak (2015) report insignificant positive effect, others suggest that size and liquidity have positive and significant effect [Malik, Gul, Khan, Rehman & khan, 2013; Alzomaia & Al-Khadhiri, 2013]. However, Nguyen (2015) out rightly reported that liquidity has negative effect on dividend. This high level of divergence in empirical studies calls for further investigation.

Moreover, the timeframe covered by the present study is most recent than the previous studies. The previous studies lack currency; the most current of the existing studies used time frame that stopped in 2013 [Nguyen, 2015; Inyiama, Okwo & Inyiama, 2015]. The need for currency in empirical evidence makes the present study exigent.

3. *Methodology*

An ex-post-facto research design was adopted since the variables of the study are found in historical data obtainable from the financial reports of quoted companies in Nigeria. The population of the study is the 28 companies quoted and classified as consumer goods sector in Nigerian Stock Exchange. Convenience sampling was adopted to select nine consumer goods companies from the Nigerian Stock Exchange for the study.

The data were obtained from secondary sources. The data were generated from the audited annual accounts and financial statement of quoted consumer goods companies in Nigerian Stock Exchange from 2006 to 2015. To be included in the analysis, the company must meet two criteria, which are (i) having regular annual reports and accounts for the study period; (ii) paying continuous dividend throughout the period of the study. Although the data consist of both cross sectional and time series information, they do not contain complete information of all companies in the sample for the entire period. Therefore, an unbalanced panel data was used in this study.

In line with previous studies that examined the main determinants of dividend payout, the dependent variable used in this study is the dividend per share as proxy for dividend payout (DPO), defined as the dividend paid divided by net income [Rozeff, 1982; Lloyd, 1985; Amidu & Abor, 2006]. This variable measures the percentage of the company's earning distributed to shareholders.

Although, there are many potential factors that affect dividend decisions, the independent variables that are included in this study are only internal variables, which consist of market price of shares, profitability, size, leverage, and previous year's dividend.

a. **Market Value (MV_{-1}):** Market value of company can be an indicator of companies' willingness to pay dividend. If announcement of dividend in previous year is able to enhance corporate prospect and influence higher market value of the company, such company may be influenced to declare and pay dividend in order to maintain high market value. Thus, previous year's market value can determine current dividend payment.

b. **Profitability (EPS):** The primary indicator of a company's ability to pay dividends can be linked to its profitability. Linter (1956) and Baker, Farrelly and Edelman (1985) indicate that the dividend payment pattern of a company is affected by the current year's earnings and previous year's dividends. Therefore, a positive relationship is expected between company's earnings and its dividend payments.

c. **Financial Leverage (LEV):** High debt means that companies have high interest expenses, which will lead to a low net income and thus less earning will be available for shareholders. Because of the dividend payments to shareholders, the financing and investment plans especially in case of high leveraged companies may suffer. Earnings of highly leveraged companies are more risky and volatile and accordingly such companies pay low dividends [Rozeff, 1982]. Leverage is, thus, considered a key factor which determines the dividend policy of companies. The Agency cost theory provides explanation for the relationship between leverage and dividend payout. It argues that companies with high leverage ratios have high transaction costs and are in a weak position to pay higher dividends to avoid the cost of external financing.

d. **Company Size (SIZE):** A company's size has the capacity to influence the dividend policy of the company. A large company is considered to be mature and has easier access to the capital market than a small company. Hence, it is expected to have the capacity to pay more dividends than a small company does.

e. **Previous year's dividend payout (PDO_{-1}):** In the real world, it is often believed that companies pay a steady stream of dividends because investors perceive companies with stable dividends as stronger and more valuable. Lintner (1956) showed that historical dividends are essential in determining current dividends. The model was tested and reaffirmed by Fama & Babiak (1968), Ahmed & Javid (2009) and Mollah (2009) who concluded that the previous year's dividends positively affect the current dividend payout ratio of a company. In this study, the last year's dividends payout is used as a proxy variable for historical dividends.

All variables used in this study are defined in Table no. 1 along with the expected sign.

Table no. 1. Study of variables

SN	SYMBOL	Description	Expectation
1	DPO	Cash Dividend/ Net profit	Dependent variable
2	MV_{-1}	Previous year market price per share	+
3	PROF	Earnings per share measured as net profit divided by total shares	+
4	LEV	Debt/ Total assets	-/+
5	SIZE	Net Asset per share	+
6	DPO_{-1}	Previous Year's Dividend Payout	+

The data used for the study are a combination of simultaneously time series with cross-sectional data; thus, a panel methodology was adopted for the study. The relationship of the dependent and independent variables can be shown as below:

$$DPO = \alpha_0 + \beta_1 MV_{-1} + \beta_2 PROF + \beta_3\ LEV + \beta_4 SIZE + \beta_5 PDO_{-1} + \mu$$

Where, variables are defined in section 3.4 above. α_0 is the constant, β_{1-5} are the coefficient of the independent variables while μ is the error term.

In line with Malik, Gul, Khan, Rehman and Khan (2013), the panel OLS regression technique was used to study the determinants of dividend payout in the consumer goods sector in Nigerian Stock Market.

4. ***Presentation and analysis of data***

Table no. 2. Descriptive Statistics of the Variables Dividend Payout Determinants in Nigeria

	PDO	MV_{-1}	PROF	LEV	SIZE
Mean	414.3256	15840.52	566.9491	0.762705	1326.046
Median	125.0000	3900.000	147.0000	0.477500	504.5000
Maximum	3400.000	120000.0	2995.000	7.095700	4795.000
Minimum	0.000000	42.00000	-103.0000	0.000000	16.00000
Std. Dev.	729.2930	27969.11	833.3763	1.196210	1520.059
Skewness	2.683725	2.494989	1.911111	3.941613	1.032434
Kurtosis	10.07048	8.380075	5.501333	20.04670	2.679026
Jarque-Bera	141.1856	94.22892	38.25442	646.6812	6.913950
Probability	0.000000	0.000000	0.000000	0.000000	0.031525
Observations	43	42	44	44	38

The results of the descriptive statistics of the variables are obtained for a panel of nine companies in the consumer goods sector for a period of ten years (2006 to 2015). The result show mean dividend payout of 414.3256 kobo for companies in the sector within the period under study. Likewise, profitability measured with earnings per share (EPS), market value, leverage and company size recorded a mean of 566, 15841, 0.763, and 1326 kobo for each. The values of the standard deviations for all the variables are PDO (729.2930), MV_{-1} (27969.11), PROF (833.3763), LEV (1.196210) and SIZE (1520.059). The wide gap between the values of the mean and standard deviation for each of the variables showed tendency for lack of normal distribution in the series.

The results of the Jarque-bera statistics with probability values less than 0.05, for each of the variables indicate that the distribution is not normal. This suggests that dividend payout, market value, profitability, size, financial leverage for each of the companies over time is not normally distributed. This implies that corporate profile differs across companies over time.

Table no. 3. Model Estimation

Dependent Variable: PDO
Method: Panel Least Squares
Sample: 2006 2015
Periods included: 10
Cross-sections included: 9
Total panel (unbalanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MV1	0.016218	0.004123	3.933095	0.0005
PROF	0.008145	0.131985	0.061712	0.9512
LEV	-85.45282	94.03432	-0.908741	0.3715
SIZE	-0.070274	0.066087	-1.063342	0.2970
DPO1	0.570951	0.126062	4.529126	0.0001
C	86.91858	97.23035	0.893945	0.3793

R-squared	0.932847	Durbin-Watson stat	2.834726
Adjusted R-squared	0.920412		
F-statistic	75.01387		
Prob (F-statistic)	0.000000		

The result on Table 3 is the OLS panel regression that addressed the objective of the study. The Adjusted coefficient of determination (Adj R2) is 0.92. This indicates that the independent variables are capable of explaining about 92% of the reasons for dividend payout in consumer goods companies in Nigeria. The value of the F-statistics (75.0138) with p-value (0.0000) less than 0.05 showed that all the independent variables (MV_{-1}, PROF, LEV, SIZE and DPO_{-1}) have significant effect on dividend payout. This suggests that all these variables combined can determine dividend policy in consumer goods companies in Nigeria.

To address the specific objectives, the coefficients of regression, t-statistics and its corresponding p-values are used. It aims to find out the extent to which the individual independent variables determine dividend payout.

The nature and level of effect can be shown in the equation below:

$$DPO = 86.9186 + 0.0162MV_{-1} + 0.0081PROF - 85.4528LEV - 0.0703SIZE + 0.5710PDO_{-1}$$
$$[3.9331]^{*} \quad [0.0617] \quad [-0.9087] \quad [-1.0633] \quad [4.5291]^{*}$$

Test of hypotheses and discussion of findings

1. *Market value as determinant of dividend payout*

The coefficient of market value ($0.0162MV_{-1}$) and the t-statistics is 3.9331 ($p < 0.05$). This indicates that market value of previous year can determine the dividend payout in the current year (DPO). Thus, we reject the null hypothesis that "company market value has no significant effect on dividend payout". The study, therefore, posits that company market value determines dividend payout among consumer goods companies in Nigeria. A unit rise in market value of shares can lead to 0.016 units rise in dividend payout for companies. The study therefore supports that notion that companies can be influenced to pay dividend in order to maintain positive image as a performing company. The finding supports the signalling and clientele theories of dividend policy. As the clientele theory expects that company that pays high dividends should not have a lower value, companies can be influenced to pay higher dividend in order to be better valued. Thus, previous year market value reflecting the value of the company can be maintained or surpassed by paying higher dividend. On the other hand, the signalling effect theory however, agrees that ability to send positive message influences dividend payout. Empirical study of Inyiama, Okwo and Inyiama (2015) is supported by this study.

2. *Profitability as determinant of dividend payout*

The coefficient of profitability from model estimation is 0.0081PROF. This indicates a positive relationship such that a unit increase in profitability is expected to bring about 0.008 units of increase in dividend payout for consumer goods companies in Nigeria. However, the t-statistics is 0.061712 with probability value of 0.9512. Since the p-value is greater than 0.05 level of significance, we do not reject the null hypotheses that "company profitability has no significant effect on dividend payout". The result showed that the MM dividend irrelevance theory holds for companies in the consumer goods sector in Nigeria. This theory posits that no factor can significantly influence companies to pay dividend. This position has supported the work of Malik, Gul, Khan, Rehman and khan (2013). However, ample of empirical studies are at cross road with the conclusion of this present study. The studies which posit that profit determines dividend payout are divergent in their submission with Kaźmierska-Jóźwiak (2015) and Demirgunes (2015) showing negative influence while Moradi, Salehi, and Honarmand (2010) King'wara (2015), Inyiama, Okwo and Inyiama (2015), Lama Fahim, Muhammed K.K. and Hina Tahir (2015), and Fitri, Hosen and Muhari (2016) saw positive relationships.

3. *Financial leverage as determinant of dividend payout*

The coefficient of company leverage (-85.4528LEV) indicates that leverage has negative effect on dividend payout. The t-statistics with p-value of 0.3715 (> 0.05) showed that leverage does not have significant effect on dividend payout. Thus, the null hypothesis is not rejected. The study thus posits that leverage is not a determinant of dividend payout in consumer goods companies in Nigeria. In line with the theory, leverage can have negative, as well as positive, effect on dividend payout. The present study showed negative, though insignificant effect. This is supported by the work of AlzomaiaandAl-Khadhiri (2013), which posits that leverage has no effect on dividend payout. Among the studies refuted by the present study are Ahmed and Murtaza, (2015), Kajola, Desu and Agbanike (2015), Malik, Gul, Khan, Rehman and khan (2013) and Kaźmierska-Jóźwiak (2015). Even among these studies, Malik, Gul, Khan, Rehman and khan (2013) supported the positive effect while Kaźmierska-Jóźwiak (2015) conforms to the negative effect.

4. *Company size as determinant of dividend payout*

The coefficient of company size (-0.0703SIZE) indicates negative relationship, however, the t-statistics (-1.063342, p. 0.2970) showed that company size has negative but insignificant effect on dividend payout. Thus, it posits that company size is a determinant of dividend payout among consumer goods companies in Nigeria. This negates the theoretical framework that larger companies no longer have much expansion investment need and therefore have higher tendency to pay higher amount as dividend. The present study revealed that consumer goods companies in Nigeria are not influenced by company size in the payment of dividend. Thus, no investor should factor in size in determining dividend payout for companies in consumer goods sector in Nigeria.

5. *Previous year dividend payout as determinant of current year dividend payout*

Previous year's dividend has a coefficient of 0.5710PDO_{-1} indicating a positive effect. The result of the t-statistics (4.529126, p. 0.0001) is less than the 0.05 level of significance. This rejects the null hypothesis that "previous year dividend has no significant effect on dividend payout". In line with theory, this study has shown that previous announcement of dividend also influences current year announcement. All related previous empirical studies are equally supported by this finding [Musa, 2009; Alzomaia & Al-Khadhiri, 2013; Bassey, Atarret & Asianya, 2014; and Fitri, Hosen & Muhari, 2016].

5. ***Conclusion and recommendations***

The study examined the determinants of dividend payout in consumer goods sector listed in Nigerian Stock Exchange. The results have shown that market value and previous year dividend are the major determinants of dividend payment in consumer goods sector in Nigeria. This suggests that companies declare dividend with the aim to achieving high shareholders wealth through the stock market trading activities.

Since the study has shown that size and leverage can have adverse effect on payment of dividend in consumer goods companies, investors in this industry should know that small companies has higher tendency to paying dividend in this sector of Nigerian economy.

It is noteworthy that dividend payment in consumer goods companies follows a rule of the thumb where companies that paid dividend in the previous year are much likely to pay again; and companies with high share value stand more chances of paying dividend than those with lesser share price. This follows that companies that lose market value may be viewed as having slim chance of paying dividend in the current year.

The study thus recommended as follows:

1. Since previous dividend payout enhances chances of current dividend payment, it is expedient that the regulatory authorities monitor companies' dividend policy to prevent companies from paying dividend out from unprofitable business period.

2. Small investors seeking for dividend paying companies should not investment in large companies.

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GENERAL CONSIDERATIONS ON THE IMPACT OF PROPERTY ON THE ECONOMIC AND SOCIAL STATUS OF PEOPLE

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Abstract
Property is indissolubly linked to people's lives, forming part of it, being a permanent problem and occupying a particularly important place in economic, social, political and philosophical science.

Through the structure outlined in this short study, we are also trying to analyze the impact of ownership on people's economic and social status, relative to the concept of property and economic freedom.

So, the impact of property as a multiple social relationship on the social status of people is relevant, namely the link between property and economic freedom, property and social justice, property and equality/inequality in society.

Keywords: *property; economic freedom; social justice.*
JEL Classification: K_{40}

Introduction

Property has always accompanied the human kind since the dawn of civilization. Man is the only being that, being equipped with ration, took ownership not only on his natural environment, but also on the other beings; on everything that surrounds him, on everything that he discovers and he declared himself a master, applying and requesting other human beings to apply the social norms through power, at the beginning of the local communities and then of the state.

The preoccupation to justify the institution of property has existed in the different stages of the development of the human society, but all the trends and concepts remained unanimous in sustaining its importance and necessity, but the preoccupations differed in regards to its origins and purposes.

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Along with the technical and scientific progress, with the considerable increase and diversification of the object of property, the structure of the property report improved. The property evolved, adapting to the new conditions and allowing the continuous development of the market economy. Thus, the pluralism of property ownership has been highlighted, the competition between ownership forms has become more intense, the public domains and the private domains of ownership have overlapped.

The pluralism of the property forms creates the premises for stimulating the initiative, offers unlimited possibilities to act and choose for all the economic agents, through the market tools and mechanisms.

Regarded as economic category, property has always existed throughout the human society, the production and acquisition of goods necessary to live being a mandatory premise for the social life and as such, property is tightly related to the area of material goods production and harvesting the fruits of this activity.

Property and economic freedom

One of the major issues of the economic science is represented by the definition of the property as complete, multifunctional, fundamental, historically determined social relationship [Bică &Sandu, 2016]. In this context, explaining the market economy implies a deep analysis of the content of the different forms of property in their unity and compatibility and taking into account their advantages and social-economic limits reported to the optimal functioning of the economic mechanism. But the theoretical premises of such approach for this issue is the general definition of the concept of property, in its multidimensionality and not explaining this concept in a reductionist, economist manner [Bică & Sandu, 2016].

As Paul Elmer Moore was saying, „for the civilized man, the right to property is more important than the right to life” [Iliescu, 1998].

Starting from this idea, the precursors of the classic political thinking had already seized the special signification that the private property had (known also as personal fortune) for the modern human being. The importance of the property comes firstly from its tight relationship with freedom, tie that, in some of the cases, goes up until identity.

Thus, in the conception of the founders of liberalism, the first form of property – a natural property that is considered to have been gifted by God – is the property on one’s own body and person, and this type of property is identified with freedom: slaves were not free because they were not the masters of their own person and on the contrary, the man who is his own master can be named free.

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Thus, property means freedom, and a concept based on a freedom cult (such as liberalism) gets, in a perfectly explicable way, to a property cult.

This cult of property can be commented in different ways, but we must keep in mind what is essential, namely, for instance, when we say that property rights are more important than the right to life, we must understand that among these rights we count, in the first place, the right to property on one's own person. So, whoever states the priority of the property on life does not say that *owning* is more important than *being,* but only that being your own master is more important than living in any way or „with any price" [Iliescu, 1998].

As a general rule, the property does not designate the ownership on one's own person, but the possession of certain goods and values and in the liberal vision, this type of property has a natural character. The most important liberal argument in the favour of the private property is its value as guarantee of the modern freedom, even if here we cannot simply talk about an identity between the two; in the world we live in, freedom cannot be separated from property.

As social and economic report, property is characterized by:

− the appropriation or assimilation of a good;

− the owner of the property, who is called a subject, exerts all his attributes or sends, through his will, some of these attributes to others;

− the subject of the property performs his attributes in his interest [Băbeanu, 1993]

With the diversification of the object and the subject of ownership, the internal structure of the economic property ratio was shaped, including the following attributes: the right of the owner to dispose of the property in his possession, his power to dispose, free and unhindered, respectively, the appropriation by a person of a good; the right of possession; the right to use the object of the property in his possession; the right to collect the fruits and advantages of the goods owned; the right to organize, conduct and manage the object of property.

The activity to perform all these attributes of property lay under the responsibility of the owner and actually represents his monopoly, as he is able to totally or partially, temporarily or definitively alienate all these attributes of property. The ways in which the total alienation of the attributes of property occur are:

− the way that occurs on the basis of an equivalent – is the act of selling or buying the asset;

− the way that is done without an equivalent, and thus there is an economic bond of donation;

– the way in which the property attributes of legal successors are passed after the death of the owner; in this situation the report is of inheritance.

In case of separate and temporary alienation of certain attributes of the property, certain specific economic reports pertaining to property take place, such as:

– rent, lease and credit – this is the case when the usage attribute is transmitted for different time periods;

– managerial reports – when transmitting the organization, conduct and management attributes;

– usufruct reports – is the case when the fruits harvesting attribute is transmitted.

An especially important role within the structure of the property is played by its subject, being characterized by the size and elements composing it.

A distinction is being made, from the structural point of view, regarding the property on the production means and the property on consumption goods. Thus, the consumption goods are obtained by using the production mean, so the source of the object of property on the consumption goods is the property on the production means, and the existence or lack of property on the production goods, but also its size has an especially important role in the manifestation of the economic independence or dependence of individuals.

When analyzing the structure and spread of property, in direct relationship with its general object, we have to understand that it allows drafting the concrete historical report between property and freedom.

Within all modern constitutions, property and freedom are considered to be natural and imprescriptible rights of the human being. The report between property and freedom has a special importance, especially from the point of view of the freedom of people regarding their economic activity. Thus humans freedom is translated in their own initiative to be entrepreneurs, in the right they have to consume as they wish the goods from their property, inclusively the labour force, the right to consume or not goods of a certain type, the right to associate in different organizations and economic societies, the human right to donate, to rent, to leave certain goods belonging to them as inheritance.

In the appreciation of freedom, there are several points of view. The first point of view sustains the fact that full economic freedom is achieved only within and based on the individual property, because only such an owner could manifest himself on all level, such as owner, user, manager, beneficiary of the object of property.

The second point of view starts from the fact that the contemporary societies are characterized by economic gigantism and by numerous legal regulations of the economic activities, which have as result the limitation, more and more pressing, of the individual freedom.

The last point of view, also sustained by Marxism, considers that the full economic freedom of human beings is achieved only within the social property on the production means, manifesting itself based on everyone's freedom and appearing as a conscious behaviour of the individuals, in report with the objective determination of their social-economic life.

The relationship between the concepts of property and economic freedom, in the countries with market economy, is based on three related mechanisms: the first mechanism is the one of free market, the second one is the mechanism of legal regulations and the third mechanism is the one of tradition or habits [Titulescu, 2017]. Based on those three mechanisms, a certain national consensus between people is targeted, also between the economic units and fields of activity, which means economic discipline.

The declared principle of all the Western societies is economic, politic and social liberalism, this being a relative principle, under no circumstance an absolute one, because:

a) private property and market economy disseminate economic power, but not equally to all economic agents, because there is a tendency to enrich certain individuals or corporations, and they have a great political and social influence;

b) private property has a great preponderance, yet it does not separate the economic power from the political power of the state, but this separation is not complete, and the degree of measurement of these powers does nothing else than to show the degree of freedom of individuals;

c) in Western societies there are dysfunctions in the relationships between the individual and the society, and some phenomena take place challenging certain rules on which the social-economic system is based and rules that do not respect the freedom of other individuals, organizing anti-social manifestations and rejecting any intervention that comes from the legal authorities, confusing liberalism or the free society with the so-called permissive society.

Starting from all these considerations, liberalism permanently leads a private property defence politic in order to reject nationalizations. A high portion of the economic success obtained by privatization, eradication of economic monopoly and reduction of the state authoritative intervention and by encouraging the competition between owners – entrepreneurs are linked, in this way, to the liberal politics of promoting private property.

Property and social justice

A very important issue is referring to the economic inequality and social injustice. In the social reality, everything is established simultaneously: organization of production is one of the causes of inequality and the feeling of injustice is one of the possible road blockers of the economy.

Many years ago, the developed countries raised the issue of coexistence of wealth and poverty, this representing an important issue in the contemporary times too.

Different calculations were made, which led to the conclusion that it would take 2% of the GDP to make poverty disappear. Thus, there are certain inequalities, which we can all agree upon [Titulescu, 2016]. Inequality is mistaken with injustice and action on the results from economy means action on the system itself and in this way, the social order is shaken. The following are considered as being *inequality laws* [Didier, 1994].

– *The difference between the monthly revenue*. There are differences between possessions, even higher than income inequalities. In the situation where no one can survive without a minimum income, it is possible to live without saving and without the accumulation of the lowest patrimony.

– *The economic inequalities are reflected in the way of living*. For example, more than 80% of the liberal professions and senior executives go on vacation. This is only the case of a worker in two, because there are inequalities in working conditions. Most often, there are differences in salary, differences in "security" and the difference in interest for work.

– *Inequality in front of death.* This law of inequality is reflected in the fact that, for example, at 35, teachers, members of the liberal professions have another 40 years of living, while agricultural workers and skilled workers have 5 years less to live. Therefore, in some professions, one lives worse and dies earlier.

– *Inequalities are cumulated.* To illustrate the linking of inequalities, some authors compared the destinies of different people. For example, Catherine Blum-Girardeau compared the destiny of a skilled worker's son to the destiny of a manager's son, relying on some of the observed realities. This comparison illustrates how inequalities accumulate, following a trajectory that we can call circular: at every stage of life, a less advantageous social position from the beginning gives fewer chances of success in life, and chances of success reduce the hope of social promotion.

An important objection to the law of General Equality is that it isn't compatible with the economic freedom to venture, succeed and own, representing an issue that is not meant to disappear even for more social justice.

In this way, referring to property, we can definitely state the fact that private property has not always served freedom and some limitations of the private property have clearly determined the progress of freedom.

In an economy where the means of production are the real estate goods that are part of the state property, the individual freedom is in a bad position. However good the intentions of politic power are, when the spontaneous competition of people cannot manifest itself any longer, it is oriented towards the public obligations and everything that pertains to exercising a power on a fellow human being. In the entire history of mankind, confiscations and loss of freedom went hand in hand, and in the situation when property is no longer guaranteed, the resort of economic progress is broken.

As a conclusion, we may say that the free initiative and market are generating inequalities. Certain inequalities are considered to be normal, some of them are unjust and unacceptable. But the liberal capitalism is also creator of valuables. If they are too limited, there is a risk of diminishing the values to be distributed, which leads to the loss of all.

Another conclusion is that economic freedom is one of the points of support for individual freedom.

Any excessive restriction of economic freedoms makes people more vulnerable, and so the individual has limited freedom. It is precisely for this reason that, in liberal democracies, states intervene to maintain a balance between economic efficiency, individual freedom and social justice, seeking to correct inequalities through social assistance and redistribution; but the optimum balance is very hard to find.

Property, between justice and equality

Because property represents one of the main fundamental human rights, it is considered a person’s legal right, which must be mandatorily respected, we believe that it is necessarily imposed to make a brief comparison between justice and equality, because we consider that the notion of property has a tight relation with these. Thus, justice was considered as the ethical and legal value, depending on which the social relationships and legal reports, legal norms and decisions of the jurisdiction organs existing in a certain era and given social organization are approved or not approved. We also believe that justice represents the fact of recognizing one’s rights and granting every individual what is his, namely, what he should legitimately and legally have. And last but not least, we think that justice represents a moral virtue, one of the highest four cardinal virtues as it is considered, consisting of giving every individual what belongs to him.

Over the time, especially in the societies based on exploitation, the dominant classes seek to justify, by their own conceptions on justice, the existing economic relationships and to empower them through moral laws and norms. In exchange, the oppressed classes and layers of society promoted their own concepts on justice, which put a high accent on the change of the respective social relationships and on the will of the masses to mandatorily eliminate social inequality.

Several conceptions on justice took shape, but one which is still hiding the essence. One of the most important bourgeois conceptions on justice is the one belonging to Marxism–Leninism, which conceived a new theory, considered to be scientifically communist, according to which the true social justice consists in the release of the man from any form of exploitation and oppression and in the achievement of the complete social equality, under the conditions of communism. Although there are several forms of justice, the main categories are:

– *distributive justice*, representing the correctness of the access to resources, positions in the society, division of certain advantages, obligations among persons, groups in the society, etc.;

– *procedural justice,* which implies the abidance by the laws, but also the complete fulfilment of justice. Regarding the abidance by the laws and the complete fulfilment of justice, justice implies respecting the legal rights of a person, among which we remind: personal freedom, property, human dignity;

– *corrective or reconstructive justice* represents the last, but not least important category of justice; it consists in the repair of injustice and correctness of the reaction to injustice and prejudices.

By expressing all these views, we believe that we can reach a clear conclusion, which leads us to the fact that, as one of the legal rights of modern man, property is at the border between justice and equality.

The compatibility of ownership forms, the mutations taking place in the structure of the property system are the expression of a historical necessity, the possibility of embodying the forms of ownership in the rules of functioning of the market economy. Thus, private economic units must be supported by the state with economic levers and an appropriate legal framework for the free initiative and creativity of entrepreneurs. In turn, the public sector must rely on the private sector, which provides an important source of budget through all the taxes and fees paid, which can be redistributed in the public interest or to meet growing social needs in education and culture, the social and health system, the state defence system. [Tobă, 2003]

Conclusions

During the transition period, the ownership structure underwent major changes in Romania, it was renewed and the private sector developed in the economy; the functional mechanism of the economy is based in particular on private property; the majority of enterprises are private companies or economic agents holding private majority capital; industry, agriculture, construction, commerce and services mainly operate on the basis of private property. The changes in the nature and the structure of property created the freedom to decide and act for the economic agents, and the economic environment became appropriate for the free market economy, which determined the European Union to recognize the existence of functional market economy in Romania. But this does not mean that the market economy and, within it, the private property are at the same level like in the developed countries from the European Union, since there are still some discrepancies in the process of creating the private sector, which must be fixed in the current stage of consolidating the Romanian market economy.

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SELF-GOVERNMENT EMPLOYEE IN THE POLISH DEFENCE SYSTEM ON THE EXAMPLE OF MAZOWIECKIE PROVINCE

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Abstract

The subject of the article is an organization of local government authorities in the implementation of tasks related to security and defence. Attention is focused on issues of employment and organization of work. The issues addressed relate to the adequacy of employees' knowledge and experience within the limits of their professional duties, the adaptation of the number of employees to the purpose of the tasks and the public opinion on the activities of the security bureaus. The article is based on the results of the qualitative and quantitative studies carried out within the framework of the project "Local self-government in Polish non-military defence system" conducted by the Department of Security and Defence Systems from the Faculty of Logistics in Military, University of Technology, during 2015-2016, in Mazowieckie Province.

Keywords: *local self-government; employee; defence system.*
JEL Classification: J_{45}, H_{12}

1. Introduction

The foundation of state's stability and security is its defence system. One of the elements of that system is public administration, which has considerable meaning for its organizational and logistical stability. Civil workers are particular components of this "defence machine." Depending on the offered working conditions, they are effective in their professional actions or conduct their tasks incompetently. The aim of this article is to present work environment of those workers – responsible for security and defence affairs in local self-governments. The scope of the matter under investigation was limited to the main Polish units of administrative division (*powiats*

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and *gminas*[1]) in Mazowieckie Province, where the research was carried out. The investigation of the research problem was based on questions about the suitability of training and workshops offered to the current requirements and the recognition of their effort by managers, colleagues and the local community. Those conditions were treated as a motivation factors for work effectiveness.

Research, which was used for this article, was conducted within the project "Local self-government in Polish non-military defence system" carried out by the Department of Security and Defence Systems in Military, Faculty of Logistics, University of Technology. Survey was carried out with the use of quality and quantity methods. The first one consists of 11 interviews with civil workers responsible for defence affairs in regional councils and local governments in Mazovia region. Quality exploration was complemented with CAWI survey that aimed all of the 314 communities (*gminas*) in those regions. 79 replies were obtained, i.e. more than 25% of the examined population. All surveys were conducted between February and August 2016.

The purpose of the project described is the holistic familiarization with the organization of the defence system in local self-government. Moreover, valuable information for that publication could be found in obtained materials. Through the analysis, a work situation of civil workers that are responsible for our security can be shown. Even though it is impossible to present all the spectrum of barriers in their work environment, some of the major faults in management that have influence both on the professional engagement of workers and on the state of the organization of Poland's defence system were stressed.

2. **Local self-government in defence system in Poland**

According to Marian Kuliczkowski, defence system is "coordinating the inner collection of human, material and organizational elements that allow opposition to the threat of war depending on the aim and the purpose of the defence" [Kuliczkowski, 2016]. It consists of management and executive subsystems. The first joins the decisive and informational elements that appear in governmental structures. The second is composed of two sections – military units and non-military units composed of public administration structures, contractors

[1] Terms defining Polish main units of administrative division of self-governments do not have proper counterparts in English. Therefore, the Polish names – *gminas* and *powiats* – will be used in the article.

and other organizational entities. Polish defence *Strategy* document from 2009 depicts that state's defence system consists of all forces and measures destined for the realization of the defence tasks [*Strategia obronności…*, 2009].

A crucial non-military element in the defence system is public administration. Self-governments gain a special role within this system due to their proximity to citizens, who are responsible for most of the crucial tasks related to the implementation of the security strategy. Their defence activity is classified into three major categories. Firstly, they are accountable for protection of the population and state structures during a potential threat to the state's security, as well as during political-military crisis or war. Secondly, they provide informational and cultural base important for survival of humans that are endangered by various internal and external threats. Thirdly, they supply military forces with human resources and provide non-military support for military activities all over the country [Kuliczkowski, 2013].

In practice, the activity in those three categories transfers to numerous procedures and formulas of administrative proceedings realized on various grades of organization and according to the three-level-division of the Polish territory. Within defence tasks, local administrations are responsible for registration of people for military record and performance of military qualification. They are also responsible for all the aspects related to the military service: the publication of information on mobilization and the duties of the citizens, the planning of personal and material performance during peace and war, and the issuing of administrative decisions in this regard. Moreover, self-government is responsible for the delivery of inductions to the army [Chrzyński, 2017]. Apart from defence activities, security administration on a local level administers affairs related to crisis management, public order and functioning of Civil Defence [Bonisławska, 2012]. Therefore, the scale of duties of this division of local self-government is remarkably wide.

Nevertheless, organizational divisions in public offices that are responsible for conducting those tasks are often lacking in personnel. The size of *powiat's* divisions liable for security affairs has usually two or even more work positions. In *gminas,* only one public servant works in such a department. Most of the time, the size of given division depends on financial resources and range of its administrative unit. Regardless of their work position, their duties are commonly transgressed with matters and tasks outside their field of work. Frequently, it concerns security of confidential information in public offices or matters relevant to organization of traffic and transport movement. According to the survey, only 13% of the workers in *gminas* had tasks connected only with security and defence.

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Every third (34%) worker had extended work duties. Matters related to defence and security are mainly only an addition to other work duties, as proved by more than a half (53%) of the examined population. Such distribution of functions can be connected with the financial state of *gminas* or general lack of qualified specialists. However, it does not diminish concern and doubts that the qualifications of people who care for our security are not adequate to the wide spectrum of their tasks.

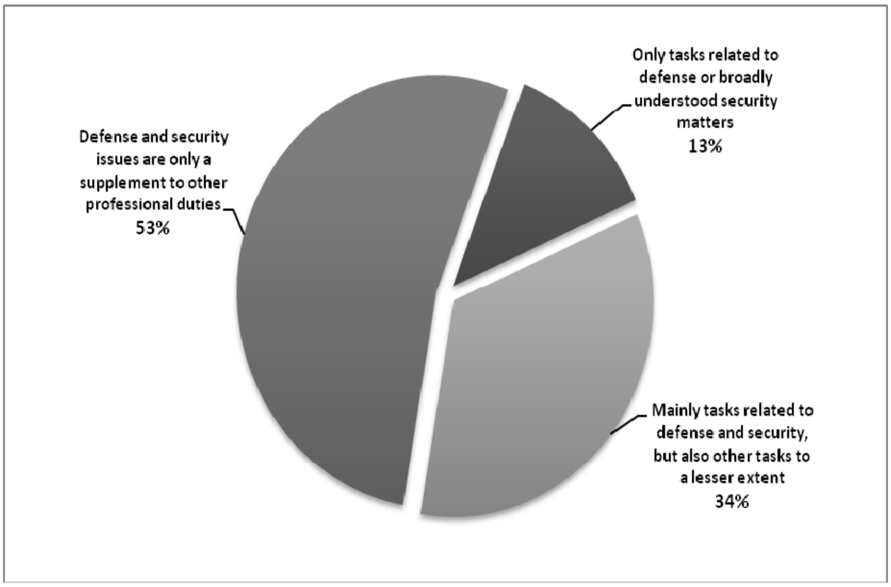

Figure no. 1. The scope of professional duties of officials responsible for defence in Mazovian gminas
Source: own research

3. **Work qualifications of officials in the Mazovian defence system**

In the face of the described problem, the concept of human capital as a factor defining the entire working class predisposition of the workers becomes more and more important. In "business" interpretation of that term is set of workers' attributes, which could be characterized by designated value and price [Shultz, 1961]. According to a different definition, human capital is a compilation of knowledge, education and individual traits, which enables effective realization of given tasks and goals [Bontis, 2003]. Work qualifications are demonstrated by work experience and education, etc.

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In the research, that was mentioned in the introduction, those factors were measured. Based on that, it was observed that the group of examined workers in local self-governments consists mainly of people with long work experience in administration. Most of the participants (around 85%) have declared that they had worked as public servants for at least 5 years. Only 5% had worked on that position less than a year. Moreover, among the interviewees predominant were those with broad work experience in security affairs. More than 75% of the public servants worked at least 5 years on a position related to defence and security affairs. Only every fourth person had worked less than 5 years in security administration; among which only 8% had worked less than a year. More than 25% of the workers gained experience through the military service.

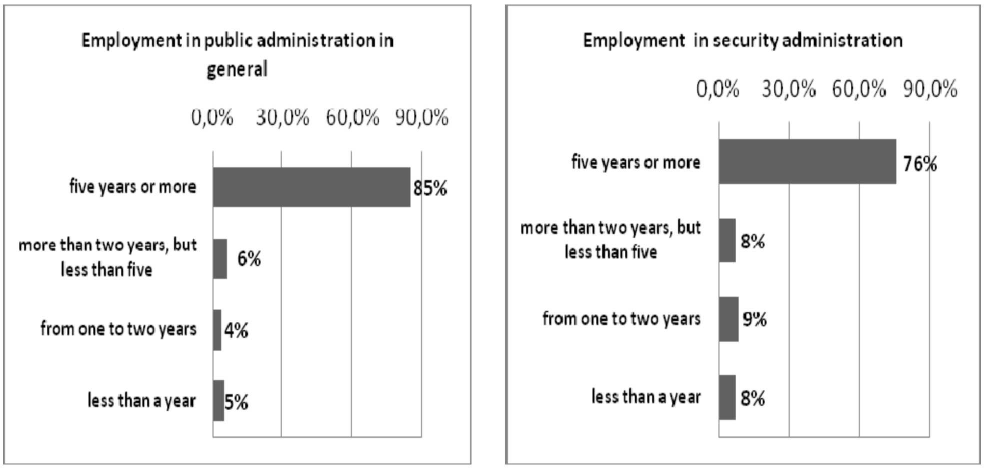

Figure no. 2. Period of employment for the participants in the study in the public administration in general (left) and in the security administration (right)
Source: own research

Work experience does not always match an education background. More than 80% of the examined people had no education connected with security or defence. Slightly above 15% of the interviewees had postgraduate education in that field and 12% has additionally higher education related to that area of studies. In this situation, a quite numerous group had no academic base of theoretical knowledge about security. It does not depict their lack of qualification, but shows an informational deficit, which can be complemented with other methods to broaden knowledge.

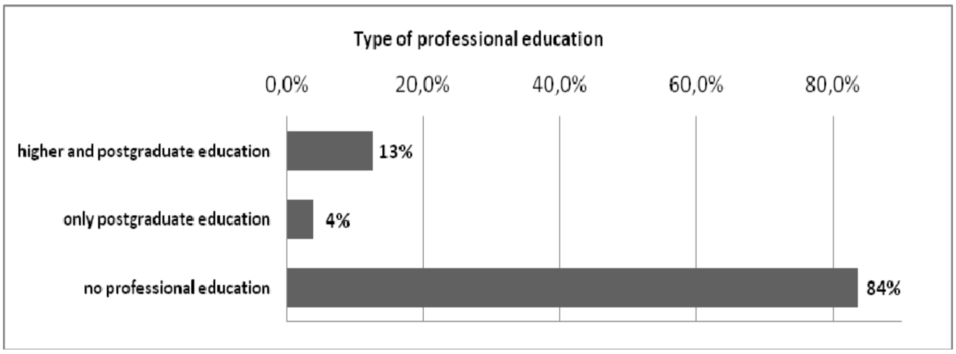

Figure no. 3. Type of professional education of the participants in the study
Source: *own research*

The most common methods of enhancing qualifications related to security studies are trainings and workshops. They can be considered as various forms of education. Trainings have academic value. During lectures, workers can become acquainted with theoretical techniques of managing designated problems relevant to their work position. Workshops are a form of simulated situations connected with threats and circumstances, which the public worker could face during work. Due to crucial differences between various methods of education, the cost of its organization also differs. That is the reason why trainings, as a less expensive method, are chosen more often [Szmitkowski, 2017]. It can be shown in the research, where 91% of the civil workers in *gminas* had undergone a training during the 12 months before the research was conducted. More than 37% had have not participated in workshops simultaneously. The rest of the workers had participated in workshops once (less than 45%), twice (about 10%) or three and more times (11%).

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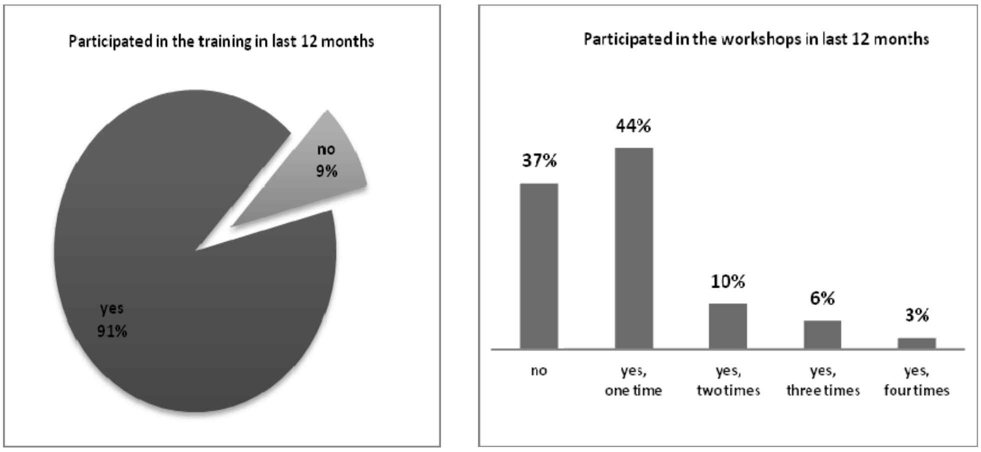

Figure no. 4. Participation in training (left) and workshops (right) of the participants in the study in the last 12 months to the moment of the survey
Source: *own research*

Wanting to concentrate on common forms of professional training, several characteristics of such educational services can be described. Trainings were mainly organized by *Mazowiecki Urząd Wojewódzki*[2], as well as *powiat* offices, the Government Security Centre, Military Replenishment Councils and private training centres. The evaluation of the available offer was rather diverse, however criticism was dominating. As a fundamental objection to those trainings were their repetitiveness and monotonousness. Repetition of same topics, often not up-to-date with current challenges, were discovered. Lecturers were blamed for lack of creativity and reluctance to present solutions to more realistic problems. It was also suggested that the amount and duration of such trainings are not adequate to the extent of a given subject. However, it was noticed that in the past such undertakings, such as training, were conducted even once a month, instead of once a year. Finally, commercialization of similar projects was criticized – according to respondents, taking into consideration characteristics of work and the need of coaching, they should be costless (just like in the old times). Among the positive opinions, a variety of educational programs, which enables training offers to be wider, was appreciated.

[2] Mazowieckie Province Office.

4. **Motivation factors in work environment**

Issues, such as education and work experience described above, are only one of the many factors, which have influence on the quality of offered services. Another crucial aspect that has impact on the professionalism at the office is effectiveness of all workers that transfers to the outcome of an institution they are working. In regards to the private company, which is profit-oriented, it is easy to estimate weather this undertaking is effective, because financial accomplishments and its rank on the market are considered as a prove for that. Showing appropriate factors for public sector is much more problematic, as not the positive financial result but the accomplishment of predefined goal/public good is a main motive of offices. It can be assumed that the performance of the tasks at the time and scale required demonstrates the effectiveness of the work of civil servants, which also requires the involvement and professionalism of the workers.

Capability of workers can be described by several components, for instance personal qualities, educational background, knowledge and motivation. Most of them develop during a process of environmental influence, including at the workplace. In materials related to human resources, consulting the main role of inspiring workers to increase the effectiveness of the whole office is emphasized. According to Beata Hysa and Bożena Grabowska, motivation is "essential and one of the major factors of work effectiveness increase" [Hysa & Grabowska, 2014].

The concept of motivation has various definitions in the specialty literature. For example, Józef Penc states that motivation is a "group of factors of psychological or physiological nature that activates and organizes human behaviour, which aims at given goal" [Penc, 2011]. On the other hand, for Bolesław Kuc and Joanna Moczydłowksa motivation is a "psychological mechanism that activates and organizes human behaviour, which aims at given goal" [Kuc & Moczydłowska, 2009]. What increases engagement of personnel is a proper motivational system [Kumari & Pandey, 2011]. It is understood as a group of consistent and interrelated impetuses and conditionings aiming at encouraging workers to effort that would benefit both the worker and the office [Penc, 1996]. Components of that influence system consist of material and nonmaterial incentives. Anna Krzysztofek and Weronika Kumańska assign to the first group factors like trainings, social services, insurances and medical care. Organizational stimulus (ex. promotion, independence, access to information, flexible work hours etc.), psychological stimulation (praises and distinction, "good" team, positive unofficial relations, communication etc.) and technical stimulant (comfort and security, and standard of work) are considered to be nonmaterial ones [Krzysztofek & Kumańska, 2003]. A particular and dominant aspect of motivation is financial incentive.

Other theories about work motivation depict a less detailed spectrum of stimulants and focus on general conditions of work environment. As an example, Herzberg's two-factor theory can be mentioned. In agreement with this, there are two groups of factors that have influence on motivation. The first one consists of stimulants that directly impact work satisfaction, ex. recognition, range of responsibility, promotion and potential for development. Hygiene aspects are components of the second one – they are salary, work conditions, relations between co-workers, company politics and management style. In such system, Herzberg's theory illustrates the first group as main stimulants to work engagement [Amstrong, 2005]. As sources of a true success in management, the most emphasized factors are recognition towards workers, assigning new responsible tasks and creating proper environment for development [Bochyńska-Śmigielska, 2012].

Based on similar discussions, Edward Deci, James Connel and Richrd Ryan have suggested that a particular role in inner motivation building plays appropriate leadership [Deci, Connell & Ryan, 1989]. Bernard Bass and Bruce Avolio have supported their point of view and showed as an example soldiers whom, despite of stressful and unfavourable circumstances, have succeeded in their mission thanks to the right leadership [Bass & Avolio, 2003]. Tove Hammer and H. Peter Dachler have emphasized that every action of the supervisor increases motivation of workers, while simultaneously increases probability of reaching a given aim [Hammer & Dachler, 1975]. Those theories can be reflected in "empowerment" concepts, which are now gaining more and more appreciation in organizational psychology and which indicate the meaning of work environment in building workers' motivation. Rosabeth Kanter has differentiated various groups of factors supporting workers in realizations of the given tasks, such as non-formal (ex. social support) and formal authority, development opportunities (increasing of competences and gaining knowledge), supplies (essential to work performance, ex. financial), information and support (from co-workers and supervisors) [Kanter, 1989].

The ability to identify all of the motivation factors described above is the key to determine workers' predisposition to realization of assigned tasks related to security and defence. The appropriate space to develop work qualifications was already identified before. However, the element of social environment's influence over workers' effectiveness still demands more exploration. An estimation of the extent of respect towards public workers' effort from their supervisors, colleagues

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and local community is needed in order to analyze its influence on their state of mind and their willingness to realize work mission.

5. **Social perception of Mazovian defence system workers**

According to the conducted survey, workers responsible for defence issues on a *gmina* level feel rather appreciated by their supervisors. Most of the respondents (61%) mentioned that defence and security issues are considered to be very or rather important by their supervisors. 16% of the participants shared different opinion, but only 2% admitted that their directors did not consider those issues as important at all. Simultaneously, every forth one (23%) could not take any stance about that. Security and defence specialists are respected a bit less by their colleagues from different departments. Nevertheless, in that environment no marginalizing of security issues was noted as dominant. According to the survey, 30% of civil servants from defence departments noted that their colleagues treat defence and security issues as rather important and 6% as very important. On the other hand, every third person thought differently. 20% of the respondents observed that their co-workers think about defence affairs as rather meaningless and 8% as not meaningful at all. For the rest of the participants (36%), it was difficult to say anything about that.

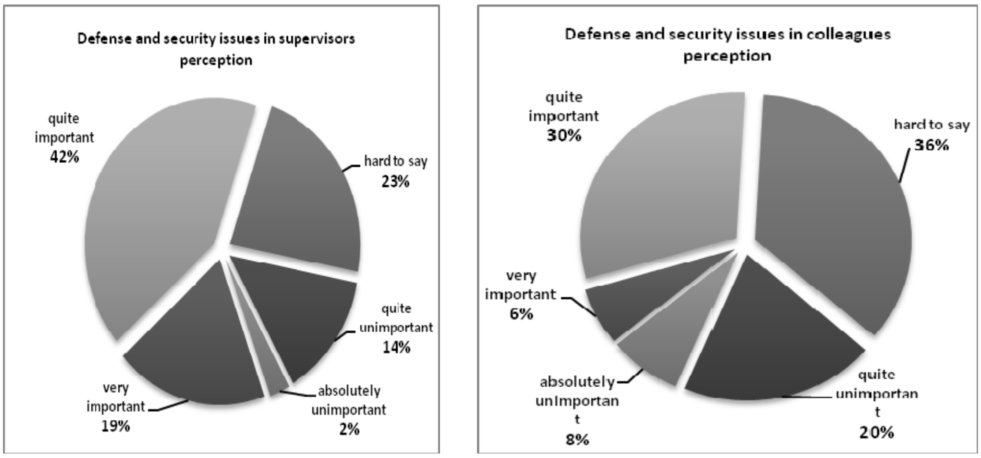

Figure no. 5. Perception of defence and security issues by supervisors (left) and colleagues from other departments (right) in the offices of the participants in the study
Source: *own research*

The problem with cooperation between workers responsible for defence affairs and other employees was widened with additional emotional aspect. As stated in the survey, most of the respondents commented the general attitude of their colleagues towards defence issues positively as kindness (34%), understanding (20%) and even willingness to help (17%). However, different feelings were also noted. Every fifth worker (20%) noticed the lack of understanding from their co-workers. Additionally, 5% of the participants described colleagues' attitude as antipathy and 4% as isolation. Such results depict rather worrying situation in a part of *gminas*, where matters related to security are not well-understood and even depreciated.

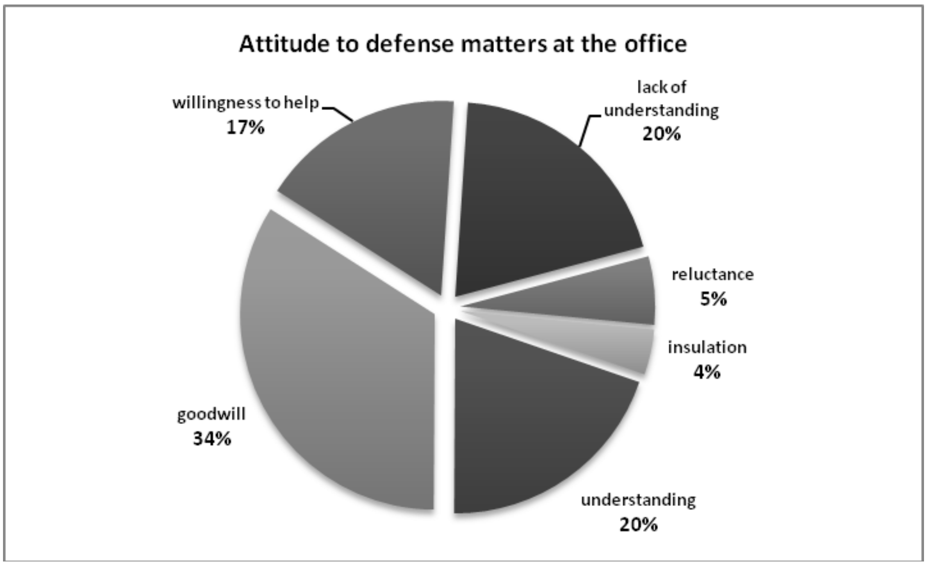

Figure no. 6. Words best describing the general attitude regarding the defence issues in the offices of the participants in the study
Source: *own research*

The scale of negation of defence civil servants' work can be seen in the reception by the local communities. That remark is a result from interviews with specialists, which represented *powiats'* self-governments. One respondent had mentioned that "some people are surprised that every *powiat* has an office which handles defence affairs – why should we have something like that?”. Criticism and undermining of the purpose of departments liable for defence affairs have a negative influence on workers’ morale. Another interviewee has mentioned “we hear comments that we have nothing to do and just have fun. It annoys us a little and even hamstrings us”. The same person had also presumed that “The thing that must be changed the most is humans’ mentality”. According to him, only after that change, the defence system would function better.

6. Conclusion

The single official seems to have little importance in relation to the entire Polish defence system in its size and complexity. However, on the shoulders of each of them separately rests a duty and priority in responding to emerging risks symptoms, regardless to the hour and the time. This makes their job a service to the state and citizens, which requires the specific involvement of professional activity. Without proper motivation, this involvement would not be sufficient for defence and security tasks, which may lead to inappropriate actions in crisis situations.

We had to deal with this kind of lack of proper involvement during the disastrous storms in Polish Pomerania, in august 2017. Reaction to unexpected strength of local disaster occurred too late then. As a result, the scale of material losses was disproportionately large for this type of threat. However, it should be noted that the unfortunate intensifying of the dangerous weather phenomena occurred this time late Friday afternoon. This is the time when officials have customary finished their work and went home. Moreover, the absence of qualified staff was the main reason for over-long waiting for a proper reaction [Czubkowska, 2017]. So, in this particular situation, the human factor chiefly failed. Mostly because of an insufficient involvement which was due to daily routine and not going out of the specified framework of professional activity. The example of Pomeranian storms shows just how important clerks in a security system are and how well should they be prepared for the job.

Based on the research presented in this article, it is possible to formulate conclusions on the preparation of Mazovian security officials for the challenges they face in their professional work. Firstly, there is a shortage of experts educated in this particular field of knowledge. Nevertheless, the educational offer in the security specialization, based mainly on theoretical vocational training, seems to be insufficient. Secondly, there is sometimes no adequate emotive support for defence workers in their work environment. Although employers (most often the political authorities of local governments) understand the significance of professional work on military and security matters, the rest of the social scene seems to be less convinced to spend public funds for similar purposes. This applies in particular to the local population, for which security those regional agencies and workplaces are created. This attitude of the society can be particularly frustrating for officials who often derive and function in these social structures. However, the Mazovian self-government departments responsible for security and defence issues seem to work properly according to the presented research. Despite the many challenges that arise in this region each year, it still manages to maintain a relatively stable and secure situation conducive to local socio-economic development.

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ANALYSIS OF FOOD PRODUCTION AND POVERTY REDUCTION OF BANGLADESH

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Abstract

This study aims to investigate the food production and poverty reduction of Bangladesh in brief. Although the country faces various problems for the economic progress since the independent in 1971, in the last forty-eight years, the increase of food production and poverty reduction of the country became remarkably. Bangladesh is a densely populated developing country in the southern Asia. The Government of Bangladesh is trying efficiently to reduce poverty of the country. In Bangladesh, about 20% of the populations still live below the poverty line, heavily undernourished with inadequate access to safe and nutritious food for a healthy life. The data of the study were collected through the secondary sources of the country. In Bangladesh, during 2000 to 2005, income poverty reduced from 48.9% to 40.0%, 2010 to 2016 reduced from 31.50% to 20%, and in 2018 it is expected to be reduce to 16%. An attempt has been taken here to show the ways to increase more food production and poverty reduction of the country.

Keywords: *food; poverty reduction; inflation; GDP; subsidies in food; economic development.*

JEL Classification: Q_{18}

1. Introduction

People's Republic of Bangladesh is a densely populated developing country in the southern Asia and its area is 147,872 km^2. It is a unitary parliamentary democratic country, and its legislature is Jatiya Sangsad. Its current constitution is formed at 4 November 1972. Dhaka is the capital city of the country. It is a Muslim dominated country. In 2004, Muslim was about 89.5%, Hindu was about 9.6%, other was 0.9%. In 2018, its populations become more than 160 millions. About 70% of the populations live in the rural areas. Agriculture is the main source of income; about 80% of the populations are involved with this sector [Mohajan, 2013a; Bangladesh Country Profile, 2018].

All the living organisms need food to survive. Food and nutrition are basic rights of human beings. After food and shelter, people want to develop their economic conditions. Food security is the main problem of every Government of Bangladesh (GoB) [Food and Agriculture Organization, FAO, 2000].

Food for all the citizens is a basic right asserted by the National Constitution of Bangladesh. In Bangladesh, the sufficient production, distribution, and availability of essential food items have always been a cause for anxiety for successive Governments, international donor organizations, and socio-economic researchers. Rice is the staple food of Bangladesh, and among 94% of all food grains produced annually is rice. About 40% of the total national employment and 48% of rural employment is generated from the rice sector. The rural development is an essential prerequisite for the formulation and implementation of an effective strategy for increasing food security, reducing poverty, and promoting overall economic growth [Country Profile, 2018].

Food security is a main target of the GoB. The Government also imposes subsidies in food, agriculture, and agricultural materials to improve the food production. However, these attempts will not provide permanent solution to food security, and economic development of the citizens [Mohajan, 2013b].

Bangladesh can reasonably desire to become a middle-income country by 2020, which require a sustained 7.5% annual gross domestic product (GDP) growth or more. To achieve this, Bangladesh will need a series of structural changes to ensure a more rapid, sustained, and employment-generating growth. Bangladesh is also one of the most vulnerable countries to weather variability and natural disasters [World Bank, 2007].

According to the Household Income Expenditure Survey (HIES) the calorie intake decreased to 2,238.5 Kcal/capita/day in 2005 from 2,263 Kcal/capita/day in 2000; whereas cereals, which are one of the main source of calorie intake, decreased to 469.2 gm/capita/day from 486.7 gm/capita/day [Bangladesh Bureau of Statistics, BBS, 2005]. The present Government has targeted to reduce poverty rate to 15% by 2021.

2. **Literature review**

Mir Khaled Iqbal Chowdhury, Sherin Fatima Rumi, and Md. Mushfiqur Rahman have stressed on the increase of the production of Boro rice in Bangladesh to achieve self-sufficiency of food-grain production [Chowdhury et al., 2013]. Dayal Talukder and Love Chile have examined the characteristics of rice

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cultivation and rural rice market in the post-trade-liberalization era [Talukder & Chile, 2015]. Md. Zohurul Islam, Ratna Begum, Sajia Sharmin, and Akteruzzman Khan have analyzed the profitability, constraints and factors that affect rice production in coastal area of Bangladesh. They have used Cobb-Douglas production function in their study [Islam et al., 2017]. Abeda Sultana has tried to find the problems and prospects of rice marketing in Bangladesh. She has shown that there is a comparative advantage in the production of high yielding rice in Bangladesh, but its marketing system is not suitable to the small farmers to bring fair price. She has identified that the major causes of food price hike are natural disaster, inadequate supply of food grain in the market, less production, hoarding by traders and creating artificial food crisis in the market, problems of communication system, and increase of intermediaries in the market to reach food grain to consumers [Sultana, 2012].

Susmita Dasgupta, Md. Moqbul Hossain, Mainul Huq, and David Wheeler have used econometric analysis to predict the impact of climate induced increases in soil salinity on high yielding variety rice production in coastal area of Bangladesh [Dasgupta et al., 2017]. Marites Tiongco and Mahabub Hossain have investigated the relationship between adoption of modern rice varieties and rice varietal diversity on household farms in Bangladesh [Tiongco & Hossain, 2015]. A. H. M. Monzurul Mamun, Bikash Chandra Ghosh, and S. M. Rayhanul Islam have examined the trend of three main climatic variables; temperature, rainfall, and relative humidity, for Rajshahi, Bangladesh by using the time series data for the 1972-2010 period, and assesses the relationship between the variables, and the yield of three major rice crops; Aus, Aman, and Boro [Mamun et al., 2015].

Rahman et al. [2016] have forecasted on area and production of Aus rice in Bangladesh. They have used Box-Jenkins Autoregressive Integrated Moving Average (ARIMA) time-series methodology to predict this. Jayanta Kumar Basak, M. Ashraf Ali, Md. Nazrul Islam, and Md. Abdur Rashid have discussed the effect of climate change on yield of two varieties of Boro rice has been assessed using the DSSAT modeling system. They have provided results of BR3 and BR14 Boro varieties for the years 2008, 2030, 2050, and 2070 for 12 districts of Bangladesh [Basak et al., 2010]. Udaya Sekhar Nagothu, Attila Nemes, Jatish Chandra Biswas, and Motaleb H. Sarker have contributed to the development of an integrated adaptation framework in order to sustain and improve rice production under different climate change scenarios in Bangladesh [Nagothu et al., 2014]. Kamala Gurung, Humnath Bhandari, and Thelma Paris have examined the transformation from rice farming to commercial aquaculture, and its implications for gender roles and relations, women's access to and control over resources, household food security, and livelihood. They have collected primary data from 400 sample households located across 10 villages in northern and southern parts of Bangladesh [Gurung et al., 2016]. Elena Gurgu and Raluca Zorzoliu have highlighted Romania's role in the current international economic context. They have analyzed the state of the Romanian economy referring to its main macroeconomic indicators and have proposed ways, and measures to revive the economy of Romania [Gurgu & Zorzoliu, 2016]. Doina Dascalu has analyzed the public debt, in terms of sustainability and vulnerability indicators, under a functioning market economy. She has indicated that in order to achieve sustainable levels of public debt, the European Union Member States are required to establish and accomplish medium term strategic budgetary goals to ensure a downward trend in public debt [Dascalu, 2016].

3. **Objectives of the study**

This study heartily wishes to focus on the food insecurity and poverty reduction of Bangladesh. Therefore, we have emphasized on the food sector of the country. This study will be carried out under the following specific objectives:

- to study the impacts of the people during the abnormal food price hike;
- to study the effect of poverty and economic situation of food price inflation;
- to know the role of Government and social conscious people to increase food production and modernization of the agriculture sector.

4. **Methodology of the study**

The data were collected to achieve the result for the purpose and scope of this study. In this study, secondary data are used to enrich the article. The secondary data are collected through different sources such as: journals, newspapers, magazines, thesis, census reports, addresses delivered by Government officials, press releases, seminars, conferences, NGOs reports, and electronic resources.

5. **Food security in Bangladesh**

In Bangladesh, consumption of only rice is about 400 gm/capita/day. Wheat is the second food grain, followed by maize, which is in the third position. In 1970s, about 70% people of Bangladesh were below the poverty line in relation to food consumption, and at present it has come down to 20% in 2016, but still it is far from

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being food secure. More than half of the children of Bangladesh are underweight, which is obviously the signal of malnutrition of the future generation. According to the latest Household Income and Expenditure Survey 2010 [HIES, 2016], about one-fifth people of Bangladesh are living below the national poverty line. Population of Bangladesh below the poverty line in 2008, 2010, and 2016 were, respectively, 36.3, 31.51, and 20% [Country Profile, 2016].

The rise of food price has a severe impact over the marginalized people. The prices of rice in Bangladesh were highly volatile between 2003 and 2009, and the gross income of the poor decreased by 36.7% due to surge of food items. In Bangladesh, food prices are increased by 72% over a period of only 10 months from June 2007 to April 2008 at the backdrop of global food prices hike. This rising inflation has become an alarming threat to the poor and middle class people from all segments of the society. According to the World Bank, about 4 million people of Bangladesh have been pushed below the poverty line due to abnormal rise in food prices [Mohajan, 2013b].

In Bangladesh, 70% of total population live in the rural areas and 80% of these villagers are directly related to agriculture. The sector employs about 51% of the total labour force of the country, and provides over 90% of the rural employment [BBS, 2004]. Food grain production in 2005 was 27.26 million metric ton (mMT), in the FY 2006–07 was 28.05 mMT, in the FY 2007–08 was 29.54 mMT [Ahmed et al., 2009].

Over the past three decades, rapid expansion of green revolution technologies, irrigation in dry season, Government subsidies in agriculture, improved seeds, increase of arable land, appropriate pesticides use, and sufficient fertilizer use have led to a rapid increase in rice and wheat production in Bangladesh [Mohajan, 2013a].

6. **Effects of food price inflation**

The food price inflation has a severe impact over the marginalized people of Bangladesh. Food inflation leaves a harmful impact on the purchasing power when the per capita GDP does not correspond with inflation. The International Monetary Fund (IMF) warned Bangladesh that excess liquidity and resurgent international commodity and food prices might push inflation to double-digit levels by year-end of 2009 [The Daily Star, 30 October 2009]. Bangladesh has already experienced a double-digit food inflation rate on point-to-point basis since July 2007.

Rice is the staple food of Bangladesh, and wheat is in the second position. Change in prices of two food stuffs affects the people most adversely than changes in prices of any other commodity. Persistent high inflation may unleash forces that

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jeopardize macroeconomic stability and economic growth. Between September 2009 and September 2010, the nominal rice and wheat prices increased by 63%, and 33%, respectively. The corresponding real prices also have risen by 53% and 24%, with a substantial rate of increase in rice prices [Bangladesh Economic Update, 2011]. In Bangladesh, food prices continued to increase and drove up the overall inflation rate in FY 2010–11. At the end of 2017 and in the beginning of 2018, the price of rice has increased record due to irregular flood. In 2017 and 2018, more than one million Rohinga Muslim refugees took shelter in Bangladesh from Myanmar due to non-humanitarian oppression of the army and civilians of that country. The GoB is providing food, clothes, treatment, and shelter to these helpless people. These additional one million people became burden to the economy of the country [Country Profile, 2018].

The inflation in June 2011 was 10.2% compared to 8.7% in June 2010, and food inflation rate was higher than the general inflation rate. In 2012, inflation has reached to about 10.92%. Higher inflation in the country is due to rising commodity prices in the world market, and for the higher spending than the budget of the Government. The inflationary remain unchanged despite a bumper production of rice, potato, fruits, and vegetables due to the borrowing of the Government from the banks [Country Profile, 2013].

During the last quarter of the year 2010, the average global food price index increased by 2.93%, whereas the average local food price of Bangladesh increased by 0.70%, and the general inflation increased by 0.53%. General, food and non-food inflation rates in Bangladesh during FY 2005 to FY 2011 are given in table 1.

Table no. 1. General, food and non-food inflation rates in Bangladesh during FY 2005 to FY 2011

Year	General inflation rate (%)	Food inflation rate (%)	Non-food inflation rate (%)
2005	6.48	7.91	4.33
2006	7.16	7.76	6.4
2007	7.2	8.11	5.9
2008	10.06	11.43	7.35
2009	5.51	7.9	4.2
2010	7.52	9.9	3.9
2011	9.76	13.9	4.32

Source: BBS, 2011.

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The continued increase in food prices has been suggested due to the global crisis, and to the increasing political and economic instability; particularly in the underdeveloped and developing countries. The price that drastically increased in 2007 had faced a downward trend after June 2008, but from 2009, the price has started to rise again [Bangladesh Economic Update, 2011].

7. **Food and nutritional scenario**

In Bangladesh, food production data are collected by BBS, Bangladesh Rice Research Institute (BRRI), Bangladesh Agricultural Research Institute (BARI), Department of Agriculture Extension (DAE), Ministry of Food and Ministry of Agriculture on a regular basis. BBS is the only authorized body under Government structure to publish production data. According to their collected data, in the last decade, the production of rice has increased, vegetable production becomes almost doubled, potato production increases 2.5 fold, fish production has increased due to increase in inland fishery, meat production has increased, superseding the rate of increase in population, egg, and milk production also increased in parallel. On the other hand, total production of pulses (one of the major sources of protein for the poor), oilseeds and fruits has gone down. The market demand on pulses, edible oils, fruits, and spices are fulfilled mainly by the import. The net production availability of sweeteners and spices remained almost unchanged during the last decade. However, the country still is deficient in production of all the non-cereal food items to provide balanced food for all. Meat and fishes are imported for the fulfilment of protein deficiency [Mohajan, 2013b].

During the independence in 1971, Aman was the major food crop, which was the dominant source of total rice production. Structure of rice production in Bangladesh has remarkably changed over time. In 2013, Aman rice occupies 50% of total rice area and contributes 38% of total production, Boro contributes about 41% of total rice area and contributes 56% of total rice production in Bangladesh, and Aus rice supplies about 9% of total rice area and 6% of rice production [Mohajan, 2013b].

The development of cultivation system, inclusion of non-cultivable land in cultivation, increased production of rice thrice in a year, invention of new variety of species and expansion of irrigation system, increased the production of rice over time [BBS, 2013].

In Bangladesh, there are three types of poor, as follows [Khuda, 2011]:

- The chronic poor; those who are poor even during *good times*, because they have limited access to assets and income to manage risks, and even small reductions in their assets and income can have serious adverse consequences for them.

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▪ The transient poor; those who live close to the poverty line and could fall into poverty when an earning individual household dies or the economy as a whole faces hardships.

▪ Other vulnerable population; the groups for whom general stability and prosperity alone would not be sufficient, such as, the disabled and divorced/ separated/widowed women without access to any regular employment or find no help of others.

Bangladesh has obtained food through domestic production, imports, and food aid. In Bangladesh, the first two sources have increased, but the third has decreased [GoB, 2005]. In 2016, the GoB demanded the country to be self-dependent in food production, and export rice [Country Profile, 2016]. The poverty of Bangladesh is not decreasing readily due to low income of most of the populations, recurrent natural calamities, increase of population, and increasing international prices of food commodities. The cereal food production (including maize) was 27.35 mMTs in 2004–05. Unfortunately, food aid declines from about 600,000 MT in 1990s to about 300,000 MT in 2004 [BBS, 2005].

8. **Access to food in Bangladesh**

Food access is correlated with food availability. Per capita food availability is actually higher than the per capita food intake. In recent years, the rapidly increasing food price has made it difficult for the poor, low, and middle income group to have access to food. In 2005, per capita food intake came down to 469.2 gm/capita/day from 486.7 gm/capita/day in 2000, over the same period food inflation increased to 7.91% from 1.38%. During the food price hike, the burden increases for the lower income groups as these groups spend a larger share of their budget on food. The individuals who have irregular income from daily wage labour and lacking productive assets, such as day labourers, fishermen, vendors and beggars, cannot access food perfectly. The children, disabled, and pregnant and lactating women face the greatest nutritional risk during the food price increase [Ahmed et al., 2009].

9. **Victims of food price hike**

The poorest citizens were adversely affected during the food price soar, because the share of food expenditure is the highest for them. The conditions of the poor of Bangladesh during the food price inflation are as follows [Mohajan, 2013b]:

▪ Day labourers, female-headed households, especially widow/divorced, separated/abandoned females; people with fixed and low income, large families with few earning members or only one earning member, small and marginalized farmers who are net buyers of staple, small job holders in urban areas, and self-employed marginal people are severely affected due to the increase of food price.

- Extremely poor people who live in urban slums areas, such as small shop owners, vendors on footpaths, beggars, and garment workers suffer severely during the food price hike. On the other hand, some people of slum areas, such as rickshaw and van pullers, CNG (compressed natural gas) taxi and cab drivers, did not suffer much; as they charged people higher than usual, and earn more to face the food price hike efficiently.
- During the food price increase some non-social activities and crimes, such as sex working, begging, smuggling, petty theft, drug trafficking, etc., increase in the society.
- Sometimes children, women, and even elderly people are engaged in force work to mitigate hunger.
- In most families from the urban areas, the acquisition of beef, mutton, chicken, milk and milk products, fish, dry fish, and lentil has reduced, because they have to spend half or more than half of their household incomes to buy food grains in order to survive starvation, and are compelled to avoid these costly food items. As a result, these families suffer from malnutrition in the long term.
- Food price hike also affects the lower middle class families, because they cannot spend more for food; as their income is limited, and they cannot start begging due to their social status. They did not find loan from any source to face the economic crisis. Government or NGOs provide them no aid, as they are not extremely poor. Some of them have wealthy relatives, but in most cases, they are completely ignored by their rich relatives. Sometimes, they are compelled to sell their only assets, such as farmland, livestock, rickshaw-vans, etc. Their schooling children have to start labour. Eventually, they become extremely poor, and cannot escape from the poverty cycle.

Four areas in Bangladesh are identified as most vulnerable during the food price hike. These are, Monga (the north-west part), Haor (the north-central part and parts of the north-east), coastal river erosion (south), and the Chittagong Hill Tracts (south-east). Monga prone districts are Kurigram, Lalmonirhat, Nilphamari, Rangpur, Gaibandha, Bogra, and Serajganj. The typical characteristics of the food insecurity prone districts are as follows [Ahmed et al., 2009]:

- Crops are in the field waiting to be harvested having no employments in the agricultural fields.

- The household level food stock is mostly consumed amid inadequate supply of food grain in the market.
- The price of rice in the market is very high, while the marginal farmers and the labourers run out of food and cash.

10. **Poverty reduction in Bangladesh**

In Bangladesh, during 2000 to 2005, income poverty reduced from 48.9% to 40.0% [Bangladesh Economic Review, BER, 2008], 2005 to 2010 reduced from 40% to 31.50% [HIES, 2010], and 2010 to 2016 reduced from 31.50% to 20% [Country Profile, 2016]. The present Government has targeted to reduce poverty rate to 15% by 2021. The incident of poverty, using Cost of Basic Needs (CBN) method, at national level, declined from 58.50% in 1983 to 48.90% in 2000 based on upper poverty line. During this period, the compound poverty reduction rate per year is recorded at 1.8%.

When most of the countries faced the effects of global economic crises, Bangladesh has acquired higher GDP growth rates compared to the previous years. In 2012–13, the GDP of Bangladesh reached 6%, which is close to the developing countries (China and India are estimated to have rates of 8.8% and 7.3%, respectively). The real GDP of Bangladesh from 2010 to 2017 is given in table 2.

Table no. 2. Real GDP growth rate of Bangladesh in percent

Bangladesh	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP growth rate (%)	6	6.5	6.1	6.6	6.3	6.9	7.0	7.1

The foreign currency reserves of Bangladesh have increased to $10.19 billion in April 2012 after the first instalment of the IMF loan was disbursed under the Extended Credit Facility (ECF) arrangement. In 2016, the foreign currency reserves reached to $29 billion and expected to increase $31 billion by the end of 2018.

On the other hand, the tax revenues exceeded a record about 10% of GDP in FY 2011. The Government’s loan became more than doubled over the 2010 to 2011, leading to concerns of higher inflation in the economy, and due to a large spending on subsidy in the power and energy sectors, and on social safety net coverage. The loans to the Government from the commercial banks and central bank have reached about $1.96 billion in FY 2011. From the commercial banks alone, the Government has borrowed around $1.3 billion. The Government borrowing created various problems for the economy as follows [Mohajan, 2013a]:

- The increased borrowing may force up interest rates and crowd out private sector investment in the country.
- If this borrowing trend continues, the Government may need to increase the tax burden on the long term.
- The increase in national debt would mean that the annual interest payments will rise.

11. **Recommendations and suggestions**

Rice is staple food of Bangladesh. The GoB should take various steps to produce more rice to feed more than 160 million people. The Government also needs to store sufficient foods to face natural calamities. Production of new varieties of genetically modified crops should be produced to increase production of food. The poor spend more than half of their earnings for food. Sometimes they only can buy starch rich foods, but cannot buy enough protein rich foods, such as meat, fish, milk etc. due to higher cost of these items. Hence, the Government must take necessary steps to produce enough dairy, poultry, and hatchery foods to fulfil the requirements of protein to all the citizens. The Government also increases its budget for research in agriculture, which will lead to the long-term food insecurity of the country. The subsidies in food must be decreased gradually for the long-term benefit of the agriculture sector. The dependency on food aid must be decreased to make the country self sufficient in food in the future. Then the country can take steps to export food by producing more.

The country is burden with large population, and most of the population is illiterate and unskilled. Every year, the Government has to spend more money to feed these people. As a result, other economic and non-economic development programs are not running in full swaying. The GoB should stress on family planning to decrease the rate of population escalation. The child marriage is a social fever in Bangladesh. The Government and NGOs must be active to stop child marriage in every stage of the society. The Government can stop it by strictly applying the marriage rules in the society. The Government should take necessary steps of safely return of the Rohinga refugees to their own motherland.

The Government also increases budget for education, as the educated population will help the country progress economically. It also takes various steps for free medical facilities to keep the nation healthy. Immunization projects are worth of praising in Bangladesh. Government should spent more in health and nutrition projects, especially for mother and child nutrition.

Political unrest is a common problem of the country. The Government and the citizens must be concerned with decreasing the political instability in the country. Political unrest reduces foreign direct investment, and destructs both public and private assets. As a result, the poor suffer much from political unrest. Government must strictly eradicate corruptions from the society in order to develop the country economically.

12. **Conclusions**

In this study, we have highlighted the need to support food production in order to reduce the poverty of the country. Bangladesh is one of the densely populated developing countries of the world. The budget for family planning must be increased to control population growth. The application of laws against child marriage must be strict in order to build a healthy and safety mother community. The GoB should apply the modern agriculture technologies to develop the country's agriculture. Natural calamities are also obstacles of the economic development, and Government should increase employment programs instead of offering relief aids for the natural disaster affected people. The Government must reduce the political instability and increase continuous energy supply. The prolonged food price inflation has to be controlled for the food security of those in need. The Government must increase the budget for research and development projects in the food and agriculture sector. Irrigation system must be increased to produce more food during the dry season and the electricity supply must be increased in the irrigation sector. The Government should take steps to distribute solar pumps with low prices for irrigation. Modern and new technologies must apply for storing rainwater for the dry season. New and genetically modified crop production must be increased to make country self sufficient in the food sector.

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STUDY REGARDING THE LEGAL OR JUDICIAL REHABILITATION OF PERSONS ENGAGED IN ECONOMIC ACTIVITIES

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Abstract

The consequences derived from any sentence pronounced for a crime committed by a major person pertain to the constitutional law, administrative law, civil law, family law, labour law or commercial law and consist in legal effects of criminal or extra-criminal nature, perpetual or long term ones which result from the fact of the criminal conviction itself and they place the convict in a disadvantageous situation.

Having a legal tool character by which the legal consequences resulting from a conviction cease or, in a larger sense, a legal tool character by which the ex-convicts are legally reintegrated in the society, its effects are the same.

Keywords: *legal rehabilitation; judicial rehabilitation; disqualification; incapacity; Criminal Code.*

JEL Classification: K_{40}

Introduction

The effects of the legal or judicial rehabilitation refer to the termination of the disqualifications and interdictions, as well as the incapacity resulted from the conviction.

Rehabilitation does not represent the obligation to reintegrate in the function previously occupied by the convict, but only the fact that he may occupy a similar function. Rehabilitation does not have an effect on the safety measures, except for the measures to be in certain locations [Bică et al., 2016].

If there are no disqualifications, interdictions or incapacities resulted from the conviction, rehabilitation would not exist because it would have no actual object [Mândru, 1996].

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By ‘disqualification’ we understand a person’s deprivation of certain civil or political rights as a result of a conviction for committing certain crimes. If these crimes are related to his profession or economic activity, this will generate a series of interdictions and the loss of political, civil and professional rights.

In the criminal law and procedure dictionary, the term “disqualification” means a consequence of legal character, permanent on a long term, of criminal or extra-criminal nature, consisting in the loss of certain rights and the restriction of the capacity of exercise. The disqualification results from the fact that a person was subject to a conviction [Antoniu & Bulai, 2011].

The ‘incapacity’ consists in the situation of a person who does not have the legal capacity to enjoy certain rights [DEX, 2009].

By ‘interdiction’ we designate the legal or judicial provision which forbids certain legal acts or concluding legal documents.

The delimitation between the three categories of consequences of the conviction is sometimes pretty difficult, since one and the same consequence of the conviction can be part of any of them.

The consequences of the conviction

As mentioned in the criminal doctrine [Mândru, 1996], the use of the three notions by the lawmaker in art. 169 paragraph (1) of the Criminal Code is due to his intention to include, in an exhaustive formulation, all the consequences of the conviction, which mainly consist of:

a. *The existence of a criminal record*. The most significant legal effect of the criminal record is that it may be the foundation of relapse (when the conviction is jail time of more than 1 year for a deliberate or accidental offense) or the intermediary plurality, or it triggers the decision of not giving up the execution of the punishment [art. 80 paragraph (2),Criminal Code] or the postponement of the execution of the punishment [art. 83 paragraph (1) letter b), Criminal Code] or suspension of the execution of the punishment under supervision [art. 91 paragraph (1) letter b), Criminal Code]. Even if not all the legal conditions of relapse are met, the criminal record will represent a general criterion of individualization of the punishment [art. 74 paragraph (1) letter e), Criminal Code].

b. *The interdiction to occupy functions*. Thus, according to Law no. 304/2004 regarding the judicial organization, modified by Law no. 247/2005, a person with criminal record cannot be appointed a magistrate; according to the Government Ordinance no. 65 from 19 August 1994, republished, regarding the organization of the activity of accounting expertise and authorized accountants, modified by Laws

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no. 186/1999 and no. 609/2003, art. 4, a person who was subject of a conviction cannot be an expert accountant which, according to the current legislation, forbids the right to manage and administer companies; according to Law no. 66 from 7 October 1993, the law of the management contract, art. 5, natural entities who were subject of definitive criminal convictions cannot occupy a managerial position, making them incompatible with this function, or were punished for violating the legal dispositions in terms of fiscal matter, in which purpose they will provide, upon selection, a proof issued by the financial institution; under the Law no. 22/1969, with the last modifications proposed by Law no. 187/2012, art. 4, a person convicted for committing one of the following offences cannot be an administrator: a) intentional offences against the patrimony; b) corruption and job-related offences; c) fraud offences; d) offences mentioned by Law no. 31/1990 regarding the companies, republished with the subsequent modifications and completions; e) offences provided by Law no. 656/2002 for the prevention and sanctioning of money laundering, as well as for the enforcement of certain preventative and control measures against the funding of terrorism acts, republished; f) offences provided by Law no. 241/2005 for the prevention and fight against tax evasion, with the subsequent modifications; g) offences provided by the current law.

c. *The interdiction to perform certain jobs*. For instance, Law no. 51/1995 for the organization and practice of the lawyer profession, republished, provides in art. 13: “The following persons shall be deemed unworthy of being a lawyer: a) a person having received a final sentence to prison by court decree, for an intentional crime, which is likely to harm professional prestige; b) a person having committed abuses that have violated fundamental human rights and freedoms, as established by court decree; c) a person who has received a sentence prohibiting him/her from exercising the lawyer’s profession, for a time duration set by a court or disciplinary decree; d) a fraudulently bankrupt person, even rehabilitated”. The Law on public notaries and notarial activity no. 36/1995 republished in 2013 provides in art. 22 that a public notary can only be a person with no criminal records resulted from committing a job-related offence or deliberately committing other offences; Law no. 26/1993 regarding the establishment, organization and functioning of the Community Police, modified by Law no. 371/2004, a person who was convicted for deliberate crimes cannot be hired on a public guard position.

d. *The interdiction to have a gun permit or authorization to own or carry any type of guns* [Bălășescu, 2015]. Law no. 295/2004 regarding the regime of guns and munitions forbids the persons who, due to criminal record, represent a danger for the public order, state safety or the life and physical integrity of the persons, to own, carry and use guns and munitions.

e. *the interdiction to be elected*. According to Law no. 70/1991 regarding local elections, modified by Law no. 67/2004, the persons who were convicted through definitive court decisions for abuse in public, legal or administrative functions, for the violation of human rights or for other deliberate crimes, if they were not rehabilitated.

f. *The interdiction to be a tutor.* The Civil Code provides under art. 113 paragraph (1) letters b) and c) that: "The following persons cannot be a tutor: b) the person disqualified from the exercise of the parenting rights or declared incapable of being a tutor; c) the one who was retired the exercise of certain civil rights, either under the law or through court decision, as well as the one with bad behaviour retained as such by a court instance".

g. *The interdiction on setting up of a new business.* According to Law no. 31/1990 regarding commercial companies with the latest modifications performed through Law no. 187/2012 art. 6 paragraph (2) "there cannot be founders the persons who, according to the law, are incapable or were convicted for crimes against the patrimony by disobedience of trust, offences of corruption, embezzlement, fake in documents, tax evasion, offences provided by Law no. 656/2002 for the prevention and fight against the money laundering, as well as setting up some measures to prevent and control the funding of terrorist acts, republished, or for the offences provide by the current law". The extension of the effects of rehabilitation is directly determined by the area of disqualifications, interdictions and incapacities that result from the conviction. In a repressive, wise system that works according to the finalities of the repressive reaction, no sanction or measure or consequence must be irrevocable or irreducible. The continuous focus point of the fight against criminality, on a legal plan, must be the creation of forces that would stimulate, encourage, provoke the will of the convict to be a better person; all this preoccupation however becomes void when the convict knows that, at the end of his efforts, there is a continuous decline characterized by those traces that will never disappear, which are the consequences of the conviction. [Dongoroz, 2000]

The removal of the disqualifications, incapacities and interdictions can take place in two single ways; or putting a deadline to these consequences, namely making them temporary, or creating a way to make them disappear. The latter solution was preferred, because it offers more possibilities to apply it and thus it led to creating and regulating the institution of rehabilitation.

The rehabilitation, both the legal and judicial one, does not make the conviction disappear; it remains a judicial reality, which can only be disbanded by admission of an extraordinary legal appeal, which would recognize the innocence of the convict.

The rehabilitation makes this reality stop generating disqualifications, interdictions and incapacities, which represent rights restrictive measures, determined by the existences of a definitive conviction [Dongoroz et al., 1972]. The effects of rehabilitation are limited to the privative or restrictive consequences (disqualifications, interdictions, incapacities), as well as to the eventual criminal nature consequences (criminal record).

According to the dispositions of art. 6, Law no. 187/2012, the disqualifications, interdictions and incapacities resulting from a conviction pronounced based on the old law produce their effects until the legal rehabilitation intervenes or the judicial rehabilitation is decided, under the condition that the offence for which the conviction was pronounced is provided in the new criminal law as well and if the disqualifications, interdictions and incapacities are provided by the law.

Limits to the effects of judicial or judicial rehabilitation

Art. 169 paragraph (2) from the Criminal Code provides that *rehabilitation does not result in the obligation to reintegrate the convict into the post from which he / she was removed after the conviction or to return his / her lost military rank.*

According to these dispositions, replacing the ex-convict, through rehabilitation, in the fullness of his political, social and economic rights that he had prior to the conviction does not mean that he will be appointed back in the function he had prior to the conviction or that he would regain the military rank he used to have because *rehabilitation is no restitutio in integrum* [Pascu et al., 2009]. Still, both the function previously occupied and the rank lost through conviction may be gained back by the ex-convict through the regular ways, because the law does not forbid the access to them, but only their automatic regain, as effect of the rehabilitation. This limitation of the effects comes to protect the stability of the functions occupied meanwhile by other persons, under the conditions of the law, the ex-convict not having any rights to have the function he lost subsequent to committing the offence and being convicted reserved [Hotca, 2008]. Subsequently, the persons who currently occupy those positions cannot be removed from their functions in order to reintegrate the ex-convict which may still get to occupy such a position following the legal ways, for instance through contest.

Based on art. 169 paragraph (3) from the Criminal Code, rehabilitation does not have effects on the safety measures taken in regards to the convict. This limitation of the effects of legal and judicial rehabilitation is justified, taking into account the fact that the safety measures, through their nature, are sanctions that mainly have a preventative character and must last as long as there is a state of danger, which triggered their implementation.

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Rehabilitation does not put an end to any obligation regarding civil compensations and the trial costs; on the contrary, it stimulates their fulfilment. Although the law does not expressly state, the person who lost the rights to an inheritance subsequent to conviction will not regain this rights through rehabilitation exactly because rehabilitation does not have effects regarding the civil obligations of the ex-convict.

Conclusions

The effects of legal or judicial rehabilitation are regulated in art. 169 from the new Criminal Code. Unlike the previous Criminal Code which places the disposals regarding the effects of rehabilitation in the first text of regulations which make up this institution, in the new Criminal Code these disposals are placed after the ones which establish the conditions of existence of rehabilitation, according to their type: legal or judicial.

The legislative technical solution, adopted by the new Criminal Code, is justified, since it is logical to impose first the regulation of the conditions for the existence of legal rehabilitation and the judicial rehabilitation and then the regulation of the effects of rehabilitation, as long as they are common to the two types.

Article 169 paragraph (1) from the new Criminal Code provides that "Rehabilitation puts an end to the disqualifications and interdictions, as well as the incapacities which result from the conviction".

On a regular basis, the conviction for committing an offence determines a restriction of the convict's legal capacity, which does not cease once the sentence is executed or the criminal legal report is removed in another way (unconditional pardon, amnesty, prescription of the execution of the punishment). Subsequent to this moment, certain extra-criminal consequences will continue to exist, provided in special laws or other normative acts, resulting simply from the existence of the definitive conviction.

It is necessary to mention that the effects of rehabilitation are limited only to consequences which derive from the criminal conviction, they do not pertain to the civil consequences of the crime, namely the civil dispositions of the conviction decision (compensations, trial costs whose fulfilment is on the contrary, favoured by the institution of rehabilitation when the material means of the convict do not allow him to).

In addition, rehabilitation does not have as a consequence the obligation to reintegrate the ex-convict in the function he was removed from subsequent to the conviction or to give him back the lost military rank [art. 169 paragraph (2), Criminal Code].

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FUTURE MODERN RETAIL SOLUTIONS AND SHOPPER EXPERIENCE

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Abstract

Artificial intelligence and automation will radically change the world, but if we want society to benefit from these changes, we need to properly prepare ourselves through an education tailored to new times. Until the last century, it was the manufacturing industry that created jobs. But today, as a result of the existence of artificial intelligence, robots, the manufacturing industry is no longer the main driver of job creation, but the service industry.

As competition grows, brand manager imagination needs to work, and sales growth solutions need to focus on customer focus attention. It is a difficult task if all brands offer discounts in the malls they are in, and the announcement of differentiation is put to the attention of specialists who offer solutions for fun of any kind for the clients. The article aims to present the evolution of world trade in recent years and the various ways of diversion invented by retailers to keep customers in store chains longer time for them to buy more.

The conclusion of this article will focus on the idea of future trade based on modern technology inside stores, which will lead to profound changes in customer buying behaviour.

Keywords: *e-commerce; omni shopper; "clickdependshopper"; intelligent selling; omni channel.*

JEL Classification: F_{10}, M_{30}

Introduction

The current article speaks about the evolution of international trade in the recent years, but also about new ways to sell products in stores according to buyers typology, most of which appeal to shoppers' entertainment through numerous online and offline methods.

Finding innovative methods of retaining people as much time as possible in the visitor's sales area, in order to be converted into buyers, leads to increased sales and business profits.

The article contains three parts in which we have shown the evolution of world trade in the recent years, according to Eurostat data, a GfK study and an Euler Hermes study. The results of the study refer to the orientation of the Romanian shoppers in the store, as well as the beginning of the end of the retail market as we know it today in Romania and in the world, thanks to the technological inventions that are meant to keep buyers for a longer time in the physical stores in order to increase sales.

These retail inventions will educate buyers in new technologies and give them new shopping experiences. The future in retail is very close and buyers will become addicted to the touchscreen of smartphones. We can even call them "clickdependshoppers" (word invented by me).

With the development of technology and the improvement of product delivery methods, younger generations have gradually given up their visit to the store and chose to fill their basket with one click. Practically, online stores have shown that they have not only more "storage space" than traditional ones, but also product delivery facilities. Here are true reasons for traders to find ways to keep consumers in classic stores.

Because artificial intelligence and entertainment has long been a marketing method for increasing sales in large chain stores, the subject has not been much debated in the literature. Innovative methods for brand managers from around the world to keep shoppers as long as possible in stores will be described in future specialist sales books.

Literature review

In order to develop this topic, I have used the information I have received at the specialized conferences I have attended in recent years, such as the Retail Arena, an annual conference dedicated to the large retail chains, online stores and service providers, logistics specialists and marketing, business owners and manufacturers in the FMCG industry, as well as the Biz conferences, destined for marketing, entrepreneurship, social media. I used information from the specialized courses I wrote for Merchandising and International Marketing, as well as the book of Gh. Pistol, *Internal Trade – Course Notes*. We also used statistical information and data made available to researchers by the European Statistics Office, Eurostat, on the evolution of international trade. Also two studies by GfK for 2017 and Euler Hermes Romania.

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1. **World trade – statistic data**

From school I learned what trade means. According to the definition, it means supplying goods in exchange for means of payment, usually money, or other commodities, the price of which is determined by the market relationship between "demand" and "offer". As we know, trade is limited to buying, transporting and selling goods.

Commerce needs to always adapt to new sales techniques to meet new and ongoing customer requirements. Once the consumer is exposed daily to numerous offerings that invade his space and mind, by all means sensed by the senses, he becomes increasingly demanding. The sight, the hearing, the smell, the touch and the taste are continually tested.

Table no. 1. International trade, 2014-2015

	Exports			Imports			Trade balance	
	2014 (billion EUR)	2015 (billion EUR)	2014–15 growth rate (%)	2014 (billion EUR)	2015 (billion EUR)	2014–15 growth rate (%)	2014 (billion EUR)	2015 (billion EUR)
EU-28 (¹)	1 703.0	1 790.7	5.1	1 691.9	1 726.5	2.0	11.1	64.2
Belgium	355.5	359.6	1.1	342.2	338.8	-1.0	13.3	20.8
Bulgaria	22.0	23.2	5.1	26.1	26.4	1.1	-4.1	-3.2
Czech Republic	131.8	142.8	8.4	116.2	126.8	9.1	15.6	16.0
Denmark	83.5	85.9	2.9	74.8	77.0	2.9	8.7	8.9
Germany	1 125.0	1 198.3	6.5	908.6	946.5	4.2	216.5	251.9
Estonia	12.1	11.6	-3.8	13.8	13.1	-5.1	-1.7	-1.4
Ireland	91.8	110.5	20.4	60.7	66.5	9.6	31.1	43.9
Greece	27.2	25.8	-5.2	48.0	43.6	-9.1	-20.8	-17.8
Spain	244.3	255.4	4.6	270.2	281.3	4.1	-25.9	-25.9
France	436.9	456.0	4.4	509.3	515.9	1.3	-72.4	-59.9
Croatia	10.4	11.7	11.9	17.2	18.6	8.2	-6.7	-6.9
Italy	398.9	413.9	3.8	356.9	368.7	3.3	41.9	45.2
Cyprus	1.4	1.6	20.9	5.1	5.0	-1.4	-3.7	-3.4
Latvia	11.0	10.9	-0.8	13.3	12.9	-2.9	-2.3	-2.0
Lithuania	24.4	23.0	-5.7	25.9	25.4	-1.9	-1.5	-2.4
Luxembourg	14.5	15.6	7.4	20.1	20.9	3.9	-5.6	-5.3
Hungary	83.3	88.9	6.8	79.0	83.5	5.7	4.3	5.4
Malta	2.2	2.3	5.4	5.1	5.2	1.7	-2.9	-2.9
Netherlands	506.3	511.3	1.0	443.7	456.4	2.9	62.7	55.0
Austria	134.2	137.8	2.7	137.0	140.1	2.3	-2.8	-2.4
Poland	165.7	178.7	7.8	168.4	175.0	3.9	-2.7	3.7
Portugal	48.1	49.9	3.6	59.0	60.2	2.0	-10.9	-10.3
Romania	52.5	54.6	4.0	58.6	63.0	7.6	-6.1	-8.4
Slovenia	27.1	28.8	6.4	25.6	26.8	4.8	1.5	2.0
Slovakia	65.1	68.0	4.5	61.7	66.3	7.5	3.4	1.7
Finland	56.0	53.9	-3.7	57.8	54.3	-6.1	-1.8	-0.4
Sweden	123.9	126.3	2.0	122.1	124.5	1.9	1.8	1.9
United Kingdom	380.3	414.8	9.1	519.7	564.2	8.6	-139.5	-149.4
Iceland	3.8	4.3	12.1	4.0	4.6	14.4	-0.2	-0.4
Norway	107.5	–	–	67.2	–	–	40.3	–
Switzerland (²)	234.8	261.6	11.4	207.6	225.9	8.8	27.2	35.7

(¹) External trade flows with extra EU-28.
(²) Including Liechtenstein.
Source: Eurostat (online data codes: ext_lt_intertrd, ext_lt_intercc and ext_lt_introle)

Source: http://ec.europa.eu/eurostat/statisticsexplained/index.php/International_trade_in_goods/ro

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In this new world of aggressive commercials, shopping becomes more and more pretentious by the education it acquires not only in school, but also by means of online and offline media.

Under these circumstances, brand managers need to find new and new ways to increase sales at sales points, by conducting numerous studies to find new types of shops and their inclinations towards consumption.

According to the International Commodity Trade study, developed by the EU Statistical Office, Eurostat, the European trade of the 28 Member States carries about 15% of world commodity trade. The value of international trade in goods is significantly higher than that of services (approximately three times), reflecting the nature of certain services that are an obstacle to cross-border trade. China and the United States were the two largest players in international trade since 2004, when China surpassed Japan.

The EU-28 international commodity trade with the rest of the world (sum of exports and extra-EU imports) was estimated at EUR 3 517 billion in 2015 (Table no. 1 and Figure no. 1). Both imports and exports increased compared to 2014, but this increase was higher for exports (€ 88 billion) than for imports (€ 35 billion). Therefore, the EU-28 trade surplus has increased from € 11 billion in 2014 to € 64 billion in 2015.

Following a dramatic decline in both exports and imports in 2009, the EU-28 has increased its exports to 58.7% over the next four years to reach a record high of 1,737 billion in 2013. Exports then declined to 1.9% in 2014 before rising to 5.1% to reach a new peak in 2015 of EUR 1,791 billion. Instead, the increase in imports after 2009 was 45.5% over three years, to reach a peak in 2012 of EUR 1,798 billion. Although imports declined to 6.2% in 2013 before stabilizing (to 0.3%) in 2014 and increasing by 2.0% in 2015, it is still below the 2012 level. Germany was, by far, the largest Member State in terms of trade outside the EU-28 in 2015, contributing 28.2% of EU-28 exports of goods to third countries and making almost a fifth (18.8%) of EU-28 imports. The following three largest exporters, the United Kingdom (12.9%), France (10.5%) and Italy (10.4%) remained the same as in 2014 (although France’s exports outside the EU have exceeded those of Italy), these being the only EU Member States with a two-digit share of EU-28 exports. The United Kingdom (15.2%), the Netherlands (14.4%), France (9.5%) and Italy (8.9%) were immediately behind Germany as regards the volume of imports of goods from third countries in 2015.

The relatively high percentage for the Netherlands can, at least in part, be explained by the considerable volume of goods entering the EU via Rotterdam,

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which is the EU's largest maritime port. The largest surplus of extra-EU-28 commodity trade, estimated at EUR 179.4 billion in 2015, was recorded by Germany, followed by Italy (EUR 33.7 billion) and Ireland (EUR 29.3 billion).

Between 2010 and 2015, the value of EU-28 imports and exports increased for all the product groups shown in Figure no. 1, excluding imports of mineral fuels and lubricants, which decreased to 14.7%. The highest rate of growth in imports [5] was reported for food, beverages and tobacco, with an increase of 49.5%. Imports of these products also increased significantly (up to 33.8%), but this increase was overtaken by chemicals and related products, where there was an increase of 34.8%.

2. **The Romanians have spent more and have focused on more expensive products in 2017**

Year 2016 was another good year for the consumer goods industry, both for retailers and producers, according to a study by GfK. 2017 was the second consecutive year when Romanians had an increased appetite for more expensive products and for higher expenses. The FMCG (Fast Moving Consumer Goods) market grew by 3.4% compared to 2016. Behind this growth is a 3% increase in purchases and up-trading (consumer orientation towards products superior in terms of price). Unlike in 2016, up-trading was found in both modern and traditional trade. This phenomenon has led to an increase of one percentage point of premium brands at national level, to the detriment of other price categories.

Romanians buy less commonly used goods, but spend more on a purchase act. Reducing the frequency with which people go shopping was noted exclusively in the fresh food categories, while for home care products the purchasing frequency increased.

As shown in Figure no. 1, two-thirds of spending goes to food.

In current consumer goods, food categories still dominate Romanian spending and account for 66%.

Household care products, beverages and personal care products had the greatest growth. However, considering the size of the category segments, fresh food and beverages were the ones that contributed most to the growth of the FMCG market. Among the categories that registered increases in 2016 are seafood and fish, frozen foods, exotic fruits (avocado, pomegranate, etc.), cider, champagne, etc.

Retail businesses grew in Romania five times more than European average in 2017.

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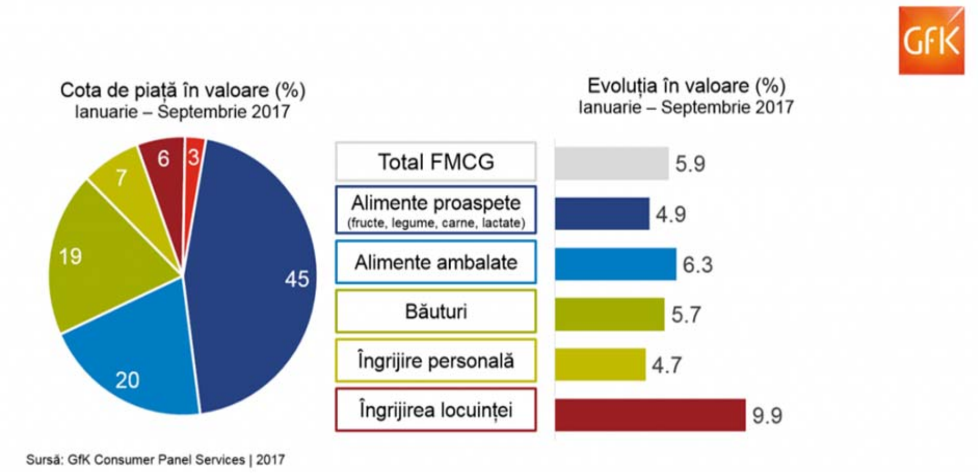
Figure no. 1. Market share January-September 2017 Retail and FMCG Romania



Source: GfK Consumer Services Romania, 2017

The turnover growth rate of the retail units in Romania was of 10% this year, far above the average of 1.5% in the EU countries and five times more the EU-27 average (excluding the UK), according to a report by GfK market research company. On the other hand, even if it is growing, the purchasing power in Romania is among the lowest in Europe.

The local retail market has now reached at around 40 billion Euros, according to another study by Euler Hermes, a company active in providing commercial credit insurance solutions, part of the Allianz Group.

Last year, the retail sector increased by 12%, according to Euler Hermes, which does not provide a figure for this year's development. The growth of the Romanian retail sector came amid the increase in the gross minimum wage (currently 1,450 lei), the VAT reduction from 24% to 19% and the increase of the employment rate by 0,16% in 2016 compared to 2015.

Last year (2017), some 230,000 square meters of new commercial space entered the market, 40% up from 2015, while 240 new food stores were opened, among the most active players in this area being Profi (134 new stores), Mega Image (60), Lidl (11) and Kaufland (6). In Romania, 85% of products sold in modern trade chains are of mixed origin, and 15% are local products.

Romania is, after Turkey, Russia, France and Italy, in the top of commercially increasing countries: from 50 to 100 square meters per thousand inhabitants in the last 4 years, but well below the European average. In major cities, there is an increase in appetite for large spaces, while street areas remain with a high rental price. The retailers (Profi, Penny, Lidl) continue to develop networks in smaller cities where rental rates are lower. For 2018, estimates show that more than 43,000 square feet of commercial space will open in Romania.

The challenge of 2017 was the growth of the market in small and medium cities, according to Euler Hermes. Statistics show that retail in large chain stores has a weight of 62.4% in Romania (February 2017) compared to 90% in developed countries. In this context, the retail sector has a chances of growth with a concentration in smaller towns (with less than 100,000 inhabitants), where trade is for the time being the street shops. In addition, traders such as Lidl target the less developed regions (Moldova). On the logistics side, retailers have begun to look for new expansion areas. eMag is looking for a new logistics centre, and Carrefour and Kaufland will also expand their logistics centres serving stores in Bucharest. Profi opened the first logistics centre in Cluj in 2017.

At the same time, traders also focus on developing online stores and offering alternative payment options. Il Passo said it already achieved 11% of online business, with Intersport opposed to just 1%, while Noriel, the largest toy distributor, said that over 60% of the orders are placed on mobile phone and only 10% are paid by electronic commerce. Bookstores aim for a 70% increase in online sales. Nevertheless, there is room for growth in the food sector: Carrefour, Metro and Selgros already have online platforms, offering them to customers through the Bringo delivery platform. International traders accelerated this development in 2017 with Mega Image, Kaufland and Cora entering the online market in 2017.

Euler Hermes Romania estimates that the evolution of the retail sector will continue to be positive in 2018, influenced by positive macroeconomic indicators and recent fiscal changes. However, the increase in the current account deficit and the reappearance of inflationary pressures could alleviate trade's potential growth.

The study still presents positive data for Romania when considering the economic situation in Europe. In Figure no. 2, it is seen that Romania is framed in the minimum risk area for the Country Risk Ratio Indicator for 2017 when analyzing Gross Domestic Product – GDP – growth for 2016 and 2017.

Economic growth in Central, Eastern and Southeast Europe is set to rise and expand by + 2.5% in 2017, after + 1.7% in 2016. Reasons include:

• Accelerating in the Eurozone;

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• Turkey's rebound to + 3.7% growth in 2017;
• Russia's exit from recession: +1.3% growth is forecast in 2017.

Modern commerce in classic shops must be a priority in this period, when online sales grow spectacularly in Romania and the world.

Figure no. 2. Emerging Europe: The European Dividend

Source: http://www.eulerhermes.ro/ro/euler-hermes-in-romania/news/Pages/Situatia-Economica-in-Europa.aspx

It seems that the hypermarket remains consumers' favourite retail in the future. Modern trade covers 57% of the total FMCG market in Romania. During 2016, modern retailers earned 2 percentage points versus 2015. Supermarket and discount formats contributed most to the growth of modern commerce, gaining a half a percentage point each. The growth of these formats comes from attracting more buyers in stores and increasing the purchasing frequency. Although they had a steady market share in 2016, hypermarkets remain the most important modern channel, accounting for more than a quarter of total home FMCG sales.

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Compared to other years, in 2016 retailers' concentration has diminished their growth rate. The market share of the top 10 retailers increased by only 1 percentage point (compared with 3 points in 2015). Among the most active retailers in terms of market share growth are Lidl and Profi. Traditional trade has had a negative evolution during 2016, the decrease of 2 percentage points being determined by a reduction in the frequency with which Romanians buy from traditional formats.

Analysts characterize 2018 as follows: Unlike previous years, 2018 will be characterized by inflation as a result of fiscal relaxation and VAT cuts in 2015, 2016 and 2017 which anticipates a slower growth rate.

3. **Technology innovations and customer experience in retail**

The economic crisis has inevitably reconfigured the conditions on the retail market, its consumption rhythm and its prudent purchasing behaviour has moderated. These are just some of the predictable trends in the current evolution of consumers where industry players need to quickly identify the most effective solutions. Marketing, retail and FMCG specialists are discussing the challenges, difficulties and trends of the retail industry in the current economic context, meeting in conferences dedicated to the field and trying to provide effective solutions and practical advice for attracting consumers to shopping areas and consolidating market position, based on the latest in-store innovations, helping players with the most effective strategies and techniques for brand differentiation and consumer loyalty. By interacting directly with representatives of renowned companies in developing customer loyalty strategies, practitioners who provide specialized analysis, concrete business cases and practical exercises demonstrate how positive customer brand experience can become a strategic tool for optimizing profits and earnings.

The world of trade is turning every day and shoppers are part of the change. Today, we know that the heart of change is the client of the millennium – the one that animates the whole story of modern retail. The store of the future could have showcases that interact with passers-by inviting them into the retailer’s universe. It could have shelves in the form of touchscreens to allow customers to turn all the brand’s products, not just the ones available in the physical form in the store, or they could move into the street in the form of simple billboards that the phones scan for shopping. The Future Store could use smartphone to find out customers’ preferences or send them to the test room for all the products they want. Retailers could use intelligent mirrors to show consumers how they would look with a certain shade of lipstick without touching their lips, or as it would look in a particular dress adapted to the physical forms of the client. In addition, they could offer their customers not only a shopping experience, but also a lifetime experience to get them out of their daily routine.

All these are changes that our consumer behaviour are triggering, which a number of brands have implemented and which we will continue to write about to outline an overview of the future of retail.

1. **Intelligent showcases that create a brand experience**

The brand first comes into contact with the passers-by through a shop window. But what if technology could intervene to stop passers-by through an interactive experience and manage to pass on the brand's characteristics? LEGO has done this in Chicago through a Kinect device installed in front of the showcase, allowing the tracers to turn into LEGO men to control their movements with their body.

Other brands that resorted to intelligent showcases were Bloomingdales, which allowed passers-by to sample glasses, or BMW, in the store where the showcases turned normal cars on the street into cars of the future.

2. **Virtual racks that ease the buyer's decision and effort**

Innovation also comes in terms of store shelves that can support the retailer's business more than we have become accustomed to. Adidas used Intel technology for adiVERSE Footwear Wall, a digital wall with touchscreens that allowed shoppers to view 3D not just stock products but up to 8,000 branded products.

Adidas allowed those who entered the store to obtain information that they would normally find on the internet rather than in a physical store. Together with classical promotions in the store, the initiative has created a true brand experience in the store and a 500% increase in sales after installing the interactive wall.

3. **Intelligent mirrors that ease our choice**

Technology also has positive implications for hygiene. Marks & Spencer has installed 10 smart mirrors that help customers find out what they look like with a certain shade of foundation or a certain lipstick without really trying it on their skin.

4. **Digital content inside the products to tell a story**

If every glimpse of a store can be modified with state-of-the-art technologies to meet the needs of consumers, why brands would not enrich consumer experience through products? Burberry chose to tell a story including digital tags in its products that could be scanned with a mobile device or a high-tech mirror to trigger a short film showing how much care each individual object was working on. Burberry also included high-tech mirrors inside the store or the London emblem. Once the people in the store were probing a story, the mirror screens responded in real-time to the digital tags inside, launching the movie about how that coat was created.

The service was part of the Made to Order campaign, where consumers could order with a smartphone produced directly from the presentation podium. The clothes were delivered in 9 weeks, customized after the buyer's measurements and having a plaque engraved with his name (for example: "MADE FOR VIORICA JELEV").

5. **Customize this in-store**

Neiman Marcus, a chain of premium clothing stores, has launched a location-aware application for iOS called NM Service. As soon as a user enters the store, the sales consultants are announced through the application, also receiving the entire store history of the customer, along with their profile image on Facebook, so that they can provide the right recommendations. The application allowed the user to even select the desired sales consultant and schedule it. It can happen to anyone who goes shopping alone and wakes up in the situation of not knowing what to choose between several outfits, in which case another opinion is needed. For such situations, Voto has been created an iOS application that enables users to distribute in their network pictures of clothing items that they like, followed by friends enrolled in a social media profile application to vote. Voto can also be used by brands to allow them to share pictures of their products in their network and to obey the fans' votes, thus giving information about their preferences and trends.

Hointer, who sells men's designer jeans, has launched a new store format together with an app that will ease the buyer's experience. In a large store, with no employees interacting with customers, each pair of jeans is exposed along with a QR code. With an application, the user can scan it, choose the right size, and the desired products will wait for the sample cab, all robotic. From the application, while in the test booth, the costumer can ask for another pair of jeans.

These are just a few examples of brands that have integrated modern trends in a future store in response to the changes in buyer's behaviour.

6. **Mobile payment service**

Auchan Retail launches in Italy AuchanSpeedy, a mobile payment service, developed with Mastercard, which offers the customer the possibility to avoid the classic process of scanning and paying products at the cash registers.

With these applications, buyers will become addicted to the click of phones and we will be able to call them "clickdependshoppers".

So omni-channel retailing is focused on creating a seamless consumer experience for the connected customer who uses traditional and digital shopping channels simultaneously throughout the purchase journey (Figure no. 3).

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Figure no. 3 Omni-channel retailing

Source: http://comertelectronic.eu/e-commerce-inglobat-in-noul-concept-omni-channel/

Conclusions

Will the future only depend on a touch on a touchscreen? It is the question that more and more people ask in choosing convenience in exchange for physical effort. In a technology world, more and more time-consuming and time-dependent, online shopping tends to take the place of traditional shopping.

With the development of technology and the improvement of product delivery methods, younger generations have gradually given up their visit to the store and chose to fill their basket with one click. Practically, online stores have shown that they have not only more "storage space" than traditional ones, but also product delivery facilities.

Modern trade arrived also in Romania (in the hypermarkets, supermarkets, convenience stores and discount) to a market estimated at over 18 billion Euros.

Alongside, the large retail stores that have opened in the last 15 years in Romania have developed networks and online sales. Originally viewed as simple online platforms, they have come to show, from the point of view of products' offering, as shops in their entirety. According to players in the sector, online sales market in Romania is now somewhere around one billion Euros, with clear upward trend in the coming years.

In offline or online retail if retailers have the same prices, the same commodity and are relative to the same consumer distance, they have to find ways to encourage customers to choose their store. Brands and smart retailers are already adapting their integrated marketing plans to ensure that all forms of m-commerce and e-commerce, online and offline, are a strong point in the acquisition process, and those who do not do it risk losing a significant market share and failing to attract a new generation of buyers. The store remains the centre of gravity for the omni-shopper. A destination for the value of entertainment and social interaction, and, although value is important, promotions are essential for less than 20% of the omni-shoppers.

Expert advice refers to adapting experience based on product, retailer, and space available.

Everything depends on all who work in retail or with retailers. As long as the sales representatives are ready for change and are looking to do more and better with the same resources, as well as they are taking the effort to give the end consumer all the reasons to prefer them, then the future will look a lot like what the shoppers want.

It is the time for the companies involved in retail to proactively engage and support the training of future employees in the field, and envisage a pleasant and profitable future.

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DOCTORAL AND POSTDOCTORAL PAPERS

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THE IMPACT OF THE ONLINE ENVIRONMENT ON TOURISM

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Abstract

The online tourism is part of e-commerce and unites some of the fastest growing technologies, such as communications and information technology, the hospitality industry, and strategic management / marketing / planning.

Online tourism activities involve tour operators, travel agencies and other entities with tourism-related interests in the virtual space through a dedicated portal. The phenomenon itself has implications for the tourist services consumer.

The Internet has revolutionized the travel industry both as a source of information and as a sales channel. Online marketing, photographs, and consumer reviews are bringing destinations and attractions to the screens of potential travellers around the world. The ease with which a customer can review and compare travel options opens up new markets for both large and small businesses and the ability to confirm prices and purchase services online benefits travellers and businesses alike.

Keywords: *online tourism; e-commerce; tourism; travel industry; international tourism.*

JEL Classification: Z30, Z32

Introduction

The online tourism plays a vital and growing role in the travel sector. In fact, the online content is now a primary source of travel information, exceeding all other forms of traditional media and marketing. Travel businesses connect with consumers through online marketing, social media, travel apps, search functionality, and booking platforms. These diverse information sources and sales channels increasingly drive the tourism sector. [The Impact of Online Content on European Tourism, 2013]

However, even though tourism demand is increasingly shifting to an online environment, and culture is an important motivating factor, a relatively low proportion

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of enterprises in Spain, Italy, and Greece are using e-commerce to connect to potential customers. Such an imbalance presents a significant opportunity to increase sales with more widespread industry adoption of Internet sales and marketing platforms. [The Impact of Online Content on European Tourism, 2013]

The online tourism represents a significant business, with online content supporting 10%, 26%, and 43% of all tourist arrivals in Greece, Italy, and Spain. The EU average is 49%, including research and booking. This leaves significant upside potential for the tourism industry in these countries to more fully embrace an online presence. [The Impact of Online Content on European Tourism, 2013]

Online tourism provides benefits to smaller and independent establishments, as well as well-known brands. By extension, increased online content also benefits the cultural tourism segment, which includes many small and medium-sized enterprises, allowing tourists to experience more niche cultural activities. [The Impact of Online Content on European Tourism, 2013]

The Internet has become a highly trusted source of information and the overall impact of online content includes a large effect from research in addition to the online sales. The total impact of travel organized online includes the impact of online tourism sales, as well as trips, which have been researched online. [The Impact of Online Content on European Tourism, 2017]

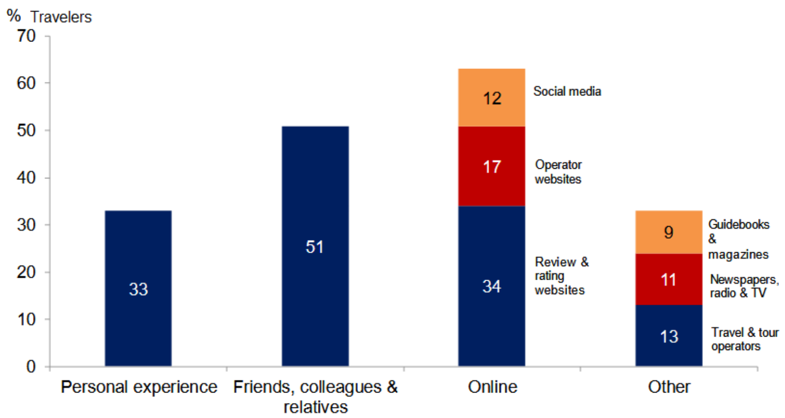

Figure no. 1. Most important sources of travel information

Source: http://www.oxfordeconomics.com/recent-releases/the-impact-of-online-content-on-european-tourism

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Literature review

My research paper entitled *The impact of the online environment on tourism* is written after I have documented based on the following published articles:

1. "E-tourism: Concept and Evolution" written by Iulian Condratov published in *EcoForum Journal*.

2. "The Future eTourism Intermediaries" written by Dimitrios Buhalis and Maria Cristina Licata published in the *International* Journal of *Tourism Management.*

3. "The Impact of Using the Internet in Promoting Romanian Industry" written by Carmen Adina Pastiu published in *Annals of Spiru Haret University. Economic Series*.

The online tourism in the world

The online tourism is growing fast due to the accessibility of information related to destinations, attractions and sights, maps, impressions and opinions of other tourists who visited these places, creating the conditions for choosing a holiday and a good vacation. The many offers of accommodation, special offers, last minute, early booking, circuits, cruises, hotels and flights present in the online environment and the ease of accessing them from home or office facilitates the purchase of tourist packages at the same or lower rates like those of the agency.

The tourism industry in Greece would benefit from a long-run increase in demand of up to 20% if action were taken to increase online activity to match that of leading EU countries. [The Impact of Online Content on European Tourism, 2013]

Taking wider benefits into account, including the supply-chain, this would increase Greece GDP by 3%, and would generate over 100,000 new jobs. [The Impact of Online Content on European Tourism, 2013]

Italy would realise an incremental benefit to tourism demand of around 10% and a boost to whole economy GDP and employment of around 1%. Given the size of the economy, this would translate into around 250,000 new jobs. [The Impact of Online Content on European Tourism, 2013]

Spain does not lag as far as the others in terms of online penetration but the opportunities are still significant. Tourism demand would increase 3% with a 0.5% boost to total GDP. This would still translate into a notable employment benefit with over 50,000 new jobs. [The Impact of Online Content on European Tourism, 2013]

Increased cultural online content alone could have a long-run benefit to whole economy GDP of around 1.5% in Greece, generating 50,000 new jobs. The benefits would be smaller in Italy and Spain, but still significant, pushing GDP up 0.3% in

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Italy and 0.2% in Spain: equivalent to around 75,000 and 20,000 new jobs. [The Impact of Online Content on European Tourism, 2013]

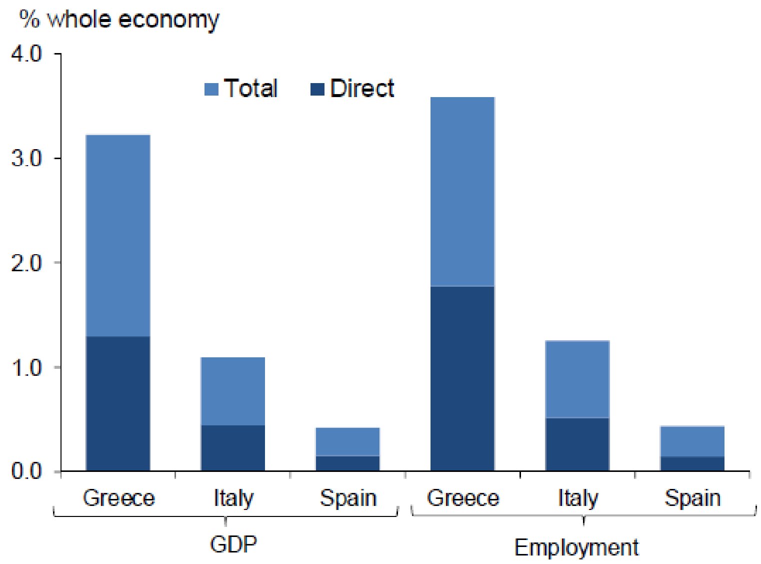

Figure no. 2. Incremental online tourism opportunity

Source: http://www.oxfordeconomics.com/my-oxford/projects/246666

In order to achieve this opportunity, the tourism industry in Greece, Italy, and Spain would need to take at least some of the following steps [The Impact of Online Content on European Tourism, 2013]:

– businesses must further develop their online presence (in multiple languages) as a primary marketing and booking channel. This should span various platforms (website, travel apps, search, sales portals, travel reviews, travel guides) and include ever deepening content. Development of content spanning both established and smaller, niche enterprises will generate further impacts;

– develop online content for cultural tourism. Given the significant role that culture plays in tourism, the Internet presents a large opportunity to motivate travel by exposing cultural assets to consumers;

– government agencies can work with the private sector to provide complementary destination and cultural online content;

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– engage with social media and encourage feedback from customers. This will allow businesses to build relationships with their customers, as well as improve service offerings over time.

Internet access has helped to fuel global tourism growth by contributing to global connectivity. Increased provision of online information and easier access means that the connection between businesses and potential travellers is stronger than ever before. This element of connectivity is an important factor driving the continued strong growth in global tourism demand. [The Impact of Online Content on European Tourism, 2017]

Social media has become an important tool for the younger generation and, over time, the current societal and generational differences in attitudes to social media will fade. As well as optimising online content for mobile browsing, businesses need to embrace social media to take full advantage of the benefits of the Internet. [The Impact of Online Content on European Tourism, 2017]

In terms of e-business management, initiators need to constantly review strategies, techniques and tools in the light of new technologies.

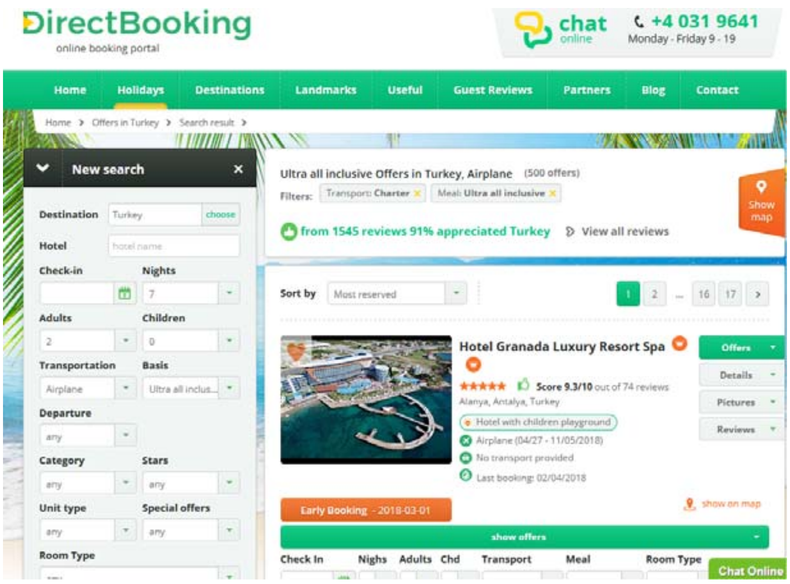

Figure no. 3. Example of electronic information method using www.directbooking.ro

Source: https://www.directbooking.ro

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The implications of online tourism for tourists

The online tourism involves the following issues for end-users: e-information, e-reservation and electronic payment.

The e-information stage involves providing information in specialized portals, electronic brochures, audio tour guides, photo albums, real-time images or video clips, and even travel journals via blogs or virtual virtual communities, such as Virtual Tourist, and why not, guides through virtual cities.

Online reservations are mostly used in hotel, air travel and car rental services.

Online reservation services as information society services must comply with legal requirements stemming from normative acts that refer to Internet services in general and to e-commerce and the conclusion of distance contracts in particular.

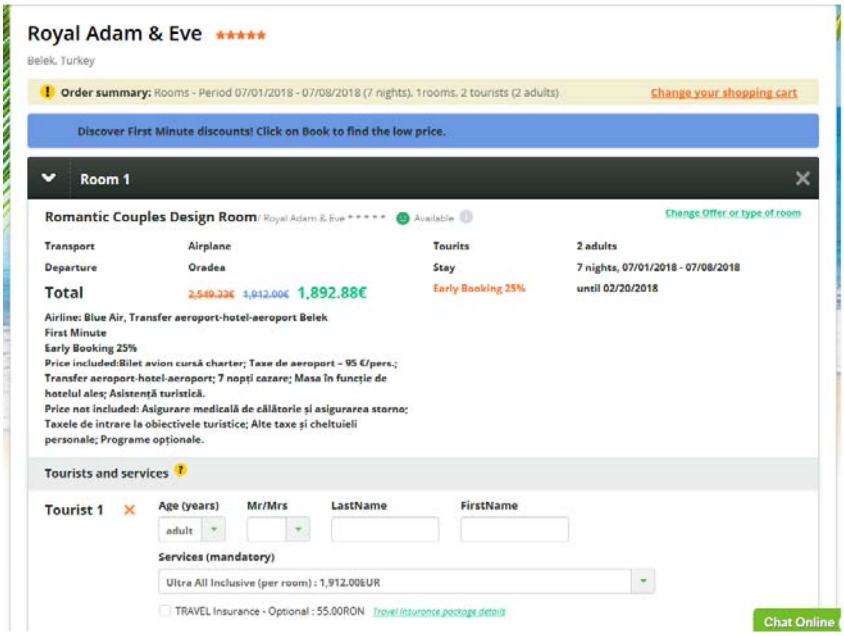

Figure no. 4. Example of electronic solving method using www.directbooking.ro

Source: https://www.directbooking.ro

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Consumers can use credit cards, electronic checks, and digital money when payments amount to just a few cents. Many of the electronic payment systems on the Internet are the equivalent of electronic systems used every day, such as credit cards, checks, etc. Even the digital money, meant to represent the currency, is available.

The card, debit or credit card, may fulfil under certain conditions other functions, such as the coverage of risks, as well as an insurance policy or assistance in certain situations.

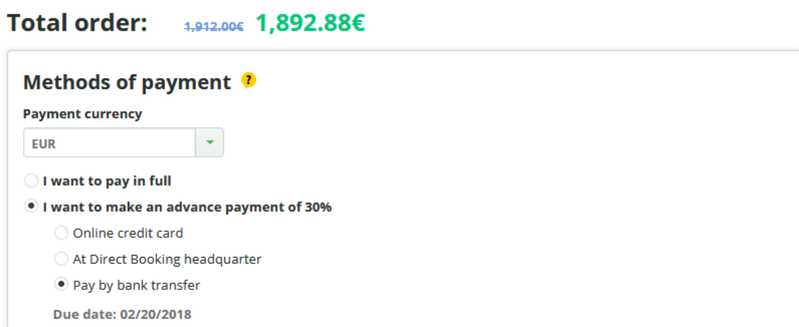

Figure no. 5. Example of electronic payment method using www.directbooking.ro

Source: https://www.directbooking.ro

E-business in the field of tourism services automates the order process, increases the number of outlets, and thus improves efficiency, reduces costs and highlights competitiveness. It also allows agencies and tour operators to analyze potential customers and manage their resources properly.

The information systems in online tourism, as an integrated part of the information system at the company level, include both manual and automated phases of information collection and recording, information analysis and information processing.

There are two categories of computer systems that serve tourist services: front-office computer systems, and computer systems used for tourist bookings using the Internet.

The front-office computer systems process information and provide reports in written or visual form. They are used both in medium and large tourist accommodation structures, but also in travel agencies. These systems are designed for tourists' registration, room management and management, for the marketing of tourist products, or for cash registers. Two such systems that include all of the above activities are Medallion PMS and Epitome PMS, applications that work with complex service packages such as: free time organization, profit optimization, invoicing, correspondence or registration of tourists' departures and arrivals.

The Information systems designed for tourist bookings can operate with both individual tourists and travel agencies. They combine the actual booking and sales services with the information services.

The systems are modularised and allow interconnection of ticketing, outgoing, incoming and internal departments, etc. from the tourist reception structures or from the agencies with the financial-accounting departments and their management. Among other things, they allow the sending and receiving of data to and from global distribution systems such as Worldspan and Amadeus.

The tourism portal can be seen as a business community infrastructure that provides a transparent environment for tourism business development. The Tourism Portal brings together the parties involved in tourism activities, namely travel service providers, travel agencies and, last but not least, consumers of tourist goods and services in a virtual space on the World Wide Web. Participants play their roles in full transparency through Internet-specific tools.

Travel portals offer more and more diversified services: tourists not only can book an online stay but also will receive all the information via e-mail and will pay everything online via credit card.

The intelligent agents play an important role in e-business in general and in electronic tourism in particular, providing Internet-based assistance, helping potential tourism consumers to compare tourist offers or automatically informing users about recent events. Through intranet, Internet, or extranet networks, they assist in locating and filtering data from various databases, paying close attention to details before retrieving the most conclusive data.

Among the most well-known intelligent agents are browsers, search engines and RSS readers.

Key-points for online tourism

The tourism sector leads the wider European economy in terms of the use of online platforms. [The Impact of Online Content on European Tourism, 2017]

The majority of the European population has reliable access to the Internet and online platforms are being used with much greater frequency in all aspects of daily life. [The Impact of Online Content on European Tourism, 2017]

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Mobile Internet use is also growing. Across the EU, 6 out of 10 mobile phone users now have access to the Internet from their smartphone. Mobile use is changing the way people use the Internet for booking and researching travel, including while they are already on trips. [The Impact of Online Content on European Tourism, 2017]

Social media prevalence among the younger generation in all EU countries suggests that the influence of online content will continue to grow. [The Impact of Online Content on European Tourism, 2017]

Tourism businesses in Europe need to be aware of source market demand and use online platforms to reach their audience effectively. [The Impact of Online Content on European Tourism, 2017]

Constraints on online sales remain evident, including lingering mistrust of online platforms in certain markets, as well as further limits from some aversion to credit card use. [The Impact of Online Content on European Tourism, 2017]

Online sales and use of established and trusted sales platforms can help smaller tourism businesses access larger source markets. [The Impact of Online Content on European Tourism, 2017]

Businesses, which just match the ability to sell online to local preferences, will miss sales to potential travellers from foreign markets that may be more comfortable buying online. [The Impact of Online Content on European Tourism, 2017]

On worldwide, e-commerce in tourism is defined as the sale-purchase and marketing of products and services through an electronic system such as the Internet. It involves electronic data transfer, distribution management, e-marketing, online marketing, online transactions, electronic data exchange, automated inventory management systems, and automatic data collection.

The online tourism relies primarily on information distribution, but the main purpose is direct sales, eliminating physical and time barriers by using e-commerce technologies. For example, the hotel industry can talk about booking through viable booking systems, as well as real-time booking systems. Direct sales potential is a big one, based on a number of advantages for tourism providers, such as automation, removal of the travel agent’s commission, reduction of Internet reservation costs over traditional methods, and increase of bookings due to new methods to access the Web.

Conclusions

In conclusion, forecasts for the development of online tourism are very optimistic, given that more and more people have access to the Internet. Even though the market is dominated by classic agencies, with the development of own

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sites, more and more agencies have moved from the offline sale system to selling via the Internet, investing more and more in this direction, or promoting tourist packages through travel portals – which can guarantee their access to a growing number of clients and, therefore, long-term success.

The advantages of the online tourism are:

First of all, the major advantage is transparency! The details, facilities, prices, location, and images, all must correspond to reality, because the consequences can be disastrous otherwise!

The second advantage is the collaboration: social networks make wonders for the hotel industry, and even for tourism in general. The possibilities offered by these means of communication are unlimited. Imagine connections between millions of people and how easy it is to find out what you can visit in a city, where you can eat the best and all sorts of other little tricks.

Another advantage is speed. A simple search on Google and in a few seconds we find detailed information about all the places we dream to see one day.

We also need to mention the stage underway in the virtual world: predictability. All online travel platforms are heading towards this, which, through intelligent systems, offers recommendations that suit us perfectly.

With a smartphone, PC or a laptop and an Internet connection we can analyze an unlimited number of offers, compare or read other people's opinions. The truth is that it is absolutely wonderful to have so many options, but it can be very difficult to decide. From my point of view, this is the most important advantage of the online tourism environment: interconnecting profiles from social networks with previous reservations and with others factors to provide you with relevant results.

Those who have the most to win are tourists, who can plan their holidays much faster and more comfortably, and the tourism industry, which draws closer to western standards and to the much-anticipated and well-earned growth.

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