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# STATE GOVERNMENT REVENUE AND INFRASTRUCTURE DEVELOPMENT IN LAGOS STATE

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### ABSTRACT

This study examined the impact of state government revenue on infrastructure development in Lagos State from 2010 to 2018. Revenue from value added tax (VAT), road tax, pay as you earn (PAYE) were used as proxies for state government revenue while capital spending was used as the measure for infrastructure development in Lagos State. An ex-post facto research design was adopted as secondary data were sourced from BudgiT statistical bulletin and Lagos State data book. Autoregressive Distributed Lag (ARDL) was used to analyze the behavior of the variables. Our findings suggest that PAYE has a positive and significant contribution to infrastructure development, however, VAT and road tax have a positive and insignificant and a negative and insignificant impact respectively on infrastructure development. The study therefore recommends among others that the Lagos State government should harness its potentials in terms of procedure for collection of Value Added Tax (VAT) in the state; the sources of revenue that are significant should be reconstructed and re-engineered through public awareness, keeping of accurate data and methodical manner of collection, as this will help Lagos state government improve and be more efficient in collection and generation.

Keywords: Government revenue, infrastructure development, road tax, value-added tax, pat-as-you earn

# INTRODUCTION

Taxation is a compulsory levy imposed on citizens by the government on incomes, gains, properties, and even consumption, which in turn is used to develop infrastructure and sustain the government. From the submission of NuruAlabi (2018), taxation is a means by which governments finance their expenditure by improving charges on its citizens and corporate entities. With the payment of tax, the tax payer is handed an instrument to query the government and demand accountability and transparency if it is perceived that the fund was not judiciously utilized (Cambridge, 2019). For state government to maintain an existing and build new infrastructure, it requires revenue. The needed revenue is generated

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from fines, royalties, taxes, grants, allocation from the federal government, revenue gotten from these sources are used to develop projects like road construction, building hospitals, schools, construction of bridges etc. Nuru Alabi (2018) posits that the Lagos state government, according to available records, depends on three major sources of revenue namely internally generated revenue (IGR), federal transfers; capital receipts (borrowings etc.). A closer look shows that IGR, which is about 90% of tax revenue, is the main income earner for the state, contributing an average of 66% between 2012 and 2016. In 2016, this revenue source yielded N291 billion, translating to about N25 billion per month.

Despite unwavering efforts of the state government in mobilizing resources, huge gaps still exist in the provision of pivotal infrastructure to drive economic growth and development. Ranging from electricity, water, transportation, hospitals, schools, housing, roads, including courts and recreational centers, there are so many things needing attention. In the words of the past governor of Lagos state, Governor Akinwumi Ambode, "even with the kind of resources we have in Lagos State, it is very clear that there is a huge infrastructural deficit in the state. In addition, the resources are not so huge as to make Lagos globally competitive and deliver the social infrastructure we all crave. So where will the money to drive the Lagos State of our dreams come from. The economy is not doing well as we want it to. We cannot tax people any more than we are doing presently, but we have to become more efficient in tax collection because that is the major source of revenue with which we can predict the future, as well as improve the welfare and well-being of our people" (Ajiteru, Adaranijo & Bakare, 2018).

Despite the importance of evaluating the impact of tax revenue on infrastructure development, there seems to be inadequate availability of empirical evidence that assess the impact of state government tax revenue on infrastructure development in Nigeria. It is against this backdrop that this study is consummated to examine the impact of government tax revenue on infrastructural development in Lagos state. Specifically, the study is aimed at: determining the impact of road tax, value added tax (VAT); and of Pay as You Earn (PAYE) on infrastructure development in Lagos State.

In view of the above, the following null hypotheses were raised:

- Ho<sub>1</sub>: Road tax has no significant effect on infrastructure development in Lagos State.
- Ho<sub>2</sub>: Value-added tax (VAT) has no significant impact on infrastructure development in Lagos State.
- **Ho<sub>3</sub>:** Pay as You Earn (PAYE) has no significant implication on infrastructure development in Lagos State.

#### LITERATURE REVIEW

Public revenue could be defined as the funds generated by the government to finance its activities. In other words revenue is the total fund generated by government (federal, state, local government) to meet their expenditure fir a fiscal year. This refers also to the grand total of money or income received from the source of which expenses are incurred. Revenue could be internal or external. Internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc), and motor vehicle license, among others. While the statutory allocation from federation account, value added tax constitute the external source. State governments as the second tier of government in Nigeria derive its revenue

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from various sources. However, it should be noted that sources of revenue are by no means uniform among the states. States derive their revenue depending on the resources available to them (Adenugba & Ogechi, 2013). Pearce (1986) defines government revenue as all the money received other than from issue of debt instruments and liquidation of investments. Government revenue includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue for all funds and agencies of a government. Government revenue according to Stephen and Osagie (1985) is concerned with various ways in which the government raises revenue. From the above definitions, it can be said that state government revenue is the total amount of income accruing to a state from various sources within a specified period of time.

Osisami (1994) states that there are basically two types of revenue that accrues to state governments. These are internally generated revenue and revenue allocated from the federation account. Adenugba and Ogechi (2013) posit that internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessments, capital gain taxes, etc.), motor vehicle license, among others. While the statutory allocation from federation account, value added tax constitute the external source. Most states of the federation get the bulk of their revenue form of statutory allocation from the federation account to finance their expenditure programmes.

Pearce (1986) posits that the sources of state government revenue can be classified into two, namely recurrent revenue and capital receipts:

- (a) **Recurrent Revenue:** This is the portion of government's revenue that is highly likely to continue in the future. It is also called recurring revenue, it is predictable, stable and can be counted on in the future with a high degree of certainty (Enahoro & Olabisi, 2012). They are:
  - i. Taxes: The taxes the states government collect are personal income tax; (excluding those of the Armed Forces, external affairs officers, foreign nationals, residents of the FCT, Abuja and the Nigerian Police Force) football pools and other betting taxes, capital gains tax, entertainment tax, stamp duties, capital transfer tax (CIT).
  - ii. Licenses, Fees and Fines: These embrace motor vehicles and drivers' licenses. Land registration and survey fees and fines imposed on offenders.
  - iii. Earnings from economic activities: State governments do engage in some activities with a view to making profits. These include: establishments of banks, and investment ventures (For example; Oodua Investments) which involves sales of goods and services. Others are lotteries, rent on government properties and dividends.
  - iv. Allocation from the Federation Account: State governments are entitled to monthly allocation from the Federation Account which they share horizontally among themselves. It is, at present twenty-four percent of the total amount that accrues to the Federation Account.
  - v. Value-added Tax (VAT) allocation: It should be noted that VAT replaced sales tax which used to be exclusive preserve of the state governments. Therefore, at the inception of the VAT in 1994, the state government was given 80% of the

proceeds from VAT. Even though the percentage has now been reduced to 50%, but the state government will still receive the largest share of the VAT proceeds.

- (b) **Capital Receipts:** Capital receipts refer to those receipts which either create a liability or cause a reduction in the assets of the government. Williams (2005) posits that capital receipts are non-recurring and non-routine in nature. They are:
  - i. Grants: These usually come from the Federal Government. The purpose could be to enable a new state take off, or to carry out specific projects or to finance Federal Government programs in the state. A good example is the projects under the Directorates of Food, Roads and Rural Infrastructures (DIFRRI).
  - ii. Loans: These can be internal or external loans. The internal loans represent borrowings by state governments from sources within the country. The sources include: individuals, organizations such as commercial banks, the Federal Government or other states. On the other hand, the external loans are often taken from the World Bank, International Monetary Fund (IMF), as well as foreign countries or organizations. However, approval must be received from the Federal Government before the loans can be obtained. Besides there is a limit to the amount of loan a state government can borrow or have outstanding at a time.
  - iii. Financial aids: These are funds from foreign countries or charitable international organizations such as UNICEF to execute in the states some humanitarian programs like children immunization, control of epidemic diseases. The aids could also be meant to assist states that suffer some disasters. A good example is the case of Jesse fire disaster in Delta State towards the end of 1998 in which about one thousand persons were roasted to death. In the wake of the problem, the United States of America (USA) gave about N200m to the state to help assist the victims of the fire incident. The aids can also be in kind in form of relief materials or technical services.

From the submission of Adesola (2004), in Keynesian economics, the word infrastructure was exclusively used to describe public assets that facilitate production, but not private assets of the same purpose. In post-Keynesian times, however, the word has grown in popularity. It has been applied with increasing generality to suggest the internal framework discernible in any technology system or business organization. The term "infrastructure" could be defined as the basic structures and facilities necessary for a country to function efficiently, e.g. buildings, transport, water and energy resources, and administrative systems.

There are two types of infrastructure. Adenugba and Ogechi (2013) classified infrastructure into hard and soft. Hard infrastructure refers to the large physical networks necessary for the functioning of a modern industrial nation, whereas soft infrastructure refers to all the institutions which are required to maintain the economic, health, cultural and social standards of a country, such as the financial system, the education system, the health care system, the system of government, and law enforcement, as well as emergency services (Adenugba & Ogechi, 2013).

# **Theoretical Framework**

This study adopted the optimal taxation theory. There are three main advocates of this theory, and they are: Ramsey (1927) who advocates linear commodity taxation to raise

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revenues and redistribute; Pigou (1920) who advocates the linear commodity taxation to correct for externalities; and Mirrlees (1971) who advocates the nonlinear income taxation. The theory employs a normative approach to tax analysis that is based on the commonly used tools of welfare economics. Optimal taxation theory is all about maximizing the social welfare of the individuals in the society. The theory typically treats the social planner as a utilitarian who has a social welfare function that is based on the utilities of individuals in the society. Inferring from the theory, the government is the social planner and responsible for creating a good tax system for the purpose of revenue generation and also for welfare of the taxpayer. The basic goal is to choose a tax system that maximizes the welfare of the citizens in the society.

In a nutshell, the theory expects that a tax system should be able to raise taxes in such a way that treats the people fairly, reduces the obstruction and interference in economic decisions and does not inflict undue costs on taxpayers or tax administrators.

#### **REVIEW OF EMPIRICAL LITERATURE**

Umar, Abubakar and Yakubu (2018), carried out a study on the effect of revenue generation on infrastructural development of Gombe State. The study examines the effect of internally generated revenue on infrastructural development of Gombe State. To achieve the objectives of the study, a documentary research method was designed relying on secondary data. The study found that the revenue generation by the state revenue agency was very low as to register any tangible effect on the state budget that rely heavily on allocation from the federation account and other sources. Internally generated revenue has minimal on the infrastructural development of the state, but it has significant impact on the annual expenditure on water, electricity and roads network. The study also revealed that internally generated revenue was economical and tax avoidance and evasion were also insignificant. The study therefore recommended that there should be equality in its allocation toward infrastructural development in the state.

Nkechi and Onuora (2018) carried out a study on the effect of internally generated revenue on infrastructural development in south eastern states of Nigeria. Ex – post facto design was used in the study. Data for the study were extracted from budget estimates of each of the five South Eastern States. The study employed descriptive statistics, correlation and linear multiple regression for data analysis and data interpretation. Findings from the study revealed that there is a significant relationship between internal generated revenue and the cost of infrastructure in the South East States during the period covered by the study. Based on the findings, the researchers recommend that government should increase IGR in other to meet up the cost of infrastructures.

Ajiteru, Adaranijo and Bakare (2018), conducted an empirical investigation on tax revenue and infrastructural development in Osun State of Nigeria. The study adopted the survey research design with the population involving the government officials at the ministry of finance of Osun state as well as the people of the state. A purposive sampling technique was used to select a total of 102 respondents for questionnaire administration. The questionnaire was analyzed using descriptive statistics. It was found that tax revenue is a very strong tool for infrastructural development in the State.

Inyiama, Chinedu and Nnenna (2017), carried out a study on the relevance of tax revenue resources to infrastructural development of Nigeria. The research adopted ex-post facto research design as secondary data were used for the analysis. Data were sourced from

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the Central Bank of Nigeria Statistical Bulletin and the Federal Statistical Bureau. The study covered ten year period (2006-2015). Data were analyzed using the multiple linear regression technique. The results reveal that tax revenue resources (PPT, CIT AND VAT) had positive and insignificant effect on infrastructural development in Nigeria. The study recommends that government should provide the necessary human and material infrastructure that are needed to support seamless tax collection so they can earn more income that will boost taxation to enhance infrastructural development in Nigeria.

Oladipupo and Ibadin (2016), carried out a study on indirect taxes and infrastructural development in Nigeria. The Ordinary Least Squares (OLS) multiple regression analysis was used to examine the relationships between the major components of tax revenue in Nigeria and Nigeria's infrastructural development. The results show a positive and significant relationship between infrastructural development and some tax revenue components indicating the need for policy measures to expand tax revenue through more effective tax administration will impact positively the infrastructural development in Nigeria.

Nkanor and Udu (2016), examined the effects of electronic internally generated revenue on infrastructural development of Ebonyi State for the period of 2011 – 2014. The main objective of the study was to determine the impact of manual and electronic internally generated revenue's on infrastructure development using capital expenditure as proxy. To achieve the main objective of this study, three hypotheses were formulated. The ex-post facto research design was used in the work which involves the use of existing data. Data components of manual and electronic revenue and capital expenditure (infrastructure) of Ebonyi State government were collected and analyzed using regression and Pearson correlation method with the aid of SPSS version 17.0. Results show that the extent of relationship between each independent variable (IGR and e-IGR) were very low on the dependent variable which is Infrastructure development using capital expenditure, but cannot ignore the rate at which their degree changed, signifying an increase in associations. In general, it was discovered that there exist no significant degree of relationship of the variables studied. This implies that capital expenditure on infrastructure did not largely depend on electronic internally generated revenue in Ebonyi State within the years studied. The study therefore recommends that the electronic approach to internally generated revenue be reviewed as a matter of urgency because of the dwindling oil revenue to the State.

Anyaduba and Aronwan (2015), conducted a study on taxes and infrastructural development in Nigeria. The objective of this study was geared towards investigating the impact of tax revenues collected by the government on infrastructural development of Nigeria. This study restricts itself to taxes collected by the federal government of Nigeria. The longitudinal research design was used. The choice of this design is based on the observation of variables over a period of time 1980 to 2014. The hypotheses raised were evaluated using the Error Correction Model. The findings show that CIT and TET have significant impact on the level of infrastructural development while PPT and VAT have non-significant impact. Based on these, the study recommends amidst others that the administration of taxes especially VAT should be done in a way that collection and remittance cannot be evaded so that its effect may be properly seen in the extent of infrastructural facilities.

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Nnanseh and Akpan (2013) carried out a study on internally generated revenue (IGR) and infrastructural development in Akwa Ibom State, Nigeria. The study specifically sought to ascertain the extent to which IGR has contributed to the provision of such infrastructure as water, electricity, and road. An ex-post facto research design was adopted and the data used were obtained from secondary sources. The data were analyzed with simple percentages while simple regression statistics was used in testing the hypotheses. It was found that IGR contributed significantly and positively to the provision of water, electricity and roads. However, these contributions were skewed more to roads than electricity and water. It was concluded that IGR has made positive, but uneven contribution to the development of infrastructures in the State as some aspect of infrastructure like road was found to receive more boost from IGR than other infrastructures. Consequently, a balanced approach to IGR appropriation for infrastructural renaissance in the state was recommended.

Adenugba and Ogechi (2013) did a study on the effect of internal revenue generation on infrastructural development in Lagos State. This study assessed the effect of internal revenue generation on infrastructural development. The methodology entails the use of survey research design and purposive sampling method to select respondents from the Lagos State Inland Revenue Office to whom a set of questionnaire was administered. The data were analysed using both descriptive and inferential statistics involving the use of simple percentage and Spearman's rank correlation co-efficient. The result showed that there is a positive relationship between internally generated revenue and infrastructural development.

# METHODOLOGY

For this study, the ex post facto research design was adopted. As cited in Nnanseh and Akpan (2013), ex post facto (i.e after the fact) research is a research that is undertaken after the event has taken place and the data are already in existence. This study focused on Lagos State, and the revenue items considered for the study are road tax, value-added tax, and pay as you earn whereas, infrastructure development was measured capital spending of the Lagos state government for the period of 2010 to 2018. The choice of this period is justified on the ground that no data on the selected variables were available before 2010. The data were collected through secondary source from relevant documentation of the Lagos State annual revenue and expenditure documented by BudgiT annual statistical bulletin.

In this study, both descriptive and inferential statistics were used. The descriptive statistics that was employed is the simple mean, while the Autoregressive Distributed Lag (ARDL) was used as the inferential statistics in testing the impact of state government revenue on infrastructure development.

# **Model Specification and Estimation**

The model specified for the study is stated as follows:

INDEV= f(RT) .....(i)

INDEV= f(VAT) ..... (ii)

INDEV= f(PAYE) .....(iii)

In its statistical form, the equation becomes:

INDEVt=  $f(\beta 0 + \beta 1RTt + \beta 2VATt + \beta 3PAYEt + \mu it)$  .....(iv)

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To ensure that the data are normally distributed, the model was transform into logarithm as shown below:

logINDEV<sub>t</sub>=  $f(\beta_0 + \beta_{1\log}RT_t + \beta_{2\log}VAT_t + \beta_{3\log}PAYE_t + \mu i_t)$  .....(iv) Where:

| INDEV <sub>t</sub>                              | = | Infrastructure Development in current period |
|---|---|--|
| F   | = | Function of the model in current period      |
| β <sub>0</sub>                                  | = | Interception of the model in current period  |
| β <sub>1,</sub> β <sub>2</sub> , β <sub>3</sub> | = | Coefficient of the model in current period   |
| VATt  | = | Value Added Tax in current period            |
| RT <sub>t</sub>                                 | = | Road Tax in current period                   |
| PAYEt   | = | Pay As You Earn in current period            |
| μi <sub>t</sub>                                 | = | Error term of the model in current period    |
| Log   | = | Logarithm sign                               |

# DATA PRESENTATION AND ANALYSIS

This section of the study covers data presentation, analysis and interpretations of the results based on the analysis of data collected. The first section covers the presentation of data on the impact of state government revenue (Road Tax, Value Added Tax, and Pay-As-You-Earn) on infrastructural development in Lagos state. Table 1 shows the data that are collected from BudgiT, Lagos State Data book.

| YEAR | INDEV      | RT         | VAT        | PAYE       |
|------|------------|------------|------------|------------|
|      | ₩'billions | ₩'billions | ₩'billions | ₩'billions |
| 2010 | 245.2      | 7.51       | 47.29      | 104.68     |
| 2011 | 230.8      | 7.97       | 51.02      | 120.25     |
| 2012 | 195.2      | 8.46       | 58.48      | 135.44     |
| 2013 | 274.6      | 7.92       | 68.84      | 142.46     |
| 2014 | 180.4      | 8.92       | 76.3       | 153.61     |
| 2015 | 354.2      | 8.52       | 79.53      | 175.43     |
| 2016 | 436.9      | 9.54       | 75.44      | 190.66     |
| 2017 | 587.8      | 7.88       | 80.23      | 173.23     |
| 2018 | 699.1      | 8.98       | 103.2      | 179.77     |

Table 1: Values of INDEV, PAYE RTAX and VAT in Lagos

Source: BudgiT, Lagos State Data book of Various Years

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# **Unit Root Test**

In determining the characteristics of time series variables, a preliminary analysis is to test whether the series are stationary or not. This preliminary analysis is conducted to test for the presence of a unit root in the series. The Augmented Dickey Fuller (ADF) unit root test was applied and the results are shown in table 2 below.

| VARIABLE  | ADF TEST STAT. | 5% CRITICAL<br>VALUE | REMARKS        |
|-----------|----------------|----------------------|----------------|
| logINDEV  | -2.081111      | -4.246503            | Non Stationary |
| logPAYE   | -1.025549      | -4.246503            | Non Stationary |
| logRTAX   | -4.147781      | -4.246503            | Non Stationary |
| logVAT    | -6.913828      | -4.450425            | Stationary     |
| ΔlogINDEV | -4.960282      | -4.450425            | Stationary     |
| ΔlogPAYE  | -7.314208      | -4.773194            | Stationary     |
| ΔlogRTAX  | -8.114186      | -4.450425            | Stationary     |

Table 2: Summary of the Augmented Dickey Fuller Unit Root Test of the Variables

The empirical results of the Augmented Dickey Fuller (ADF) unit root test at 5 percent critical levels in Table 2 indicates that VAT was stationary at levels while INDEV, PAYE and RT were stationary only after first differencing. Hence, the variables have a mixed order of integration of zero and one. Since the variables have different orders of integration, this permits us to conduct the Auto-regressive Distributed Lag (ARDL) model to know if the variables have a long run relationship.

| Test Statistic   | Value      | К          |  |  |
|------------------|------------|------------|--|--|
| F-statistic      | 1.815419   | 3          |  |  |
| Critical Value B | ounds      |            |  |  |
| Significance     | I(0) Bound | I(1) Bound |  |  |
| 10%              | 2.37       | 3.2        |  |  |
| 5%               | 2.79       | 3.67       |  |  |
| 2.5%             | 3.15       | 4.08       |  |  |
| 1%               | 3.65       | 4.66       |  |  |

**Table 3: ARDL Bounds Test Result** 

Since the F-statistic of

1.815419 is lower than the critical value of the lower bound of *l(0)* series in Table 3, we conclude that there is no co-integration among the variables, i.e., there is no long run relationship among the variables. Since there is no co-integration among the variables, we will consider only the short run models since the variables show no evidence of a long run relationship.

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#### **Descriptive Analysis**

The descriptive analysis shows the description of the data in the study. It describes the mean, median, mode, standard deviation among others. Table 4 below shows the descriptive statistics of the variables for the time period.

|              | INDEV    | RT       | VAT      | PAYE      |
|--------------|----------|----------|----------|-----------|
| Mean         | 356.0222 | 8.411111 | 71.14778 | 152.8367  |
| Median       | 274.6000 | 8.460000 | 75.44000 | 153.6100  |
| Maximum      | 699.1000 | 9.540000 | 103.2000 | 190.6600  |
| Minimum      | 180.4000 | 7.510000 | 47.29000 | 104.6800  |
| Std. Dev.    | 183.4620 | 0.652025 | 17.19441 | 29.31345  |
| Skewness     | 0.857130 | 0.320528 | 0.279159 | -0.310563 |
| Kurtosis     | 2.339046 | 2.047020 | 2.545369 | 1.831278  |
| Jarque-Bera  | 1.265830 | 0.494671 | 0.194403 | 0.656890  |
| Probability  | 0.531042 | 0.780879 | 0.907373 | 0.720042  |
| Sum          | 3204.200 | 75.70000 | 640.3300 | 1375.530  |
| Sum Sq. Dev. | 269266.5 | 3.401089 | 2365.181 | 6874.228  |
| Observations | 9        | 9        | 9        | 9         |

| <b>Table 4: Descriptive</b> | Statistics |
|-----------------------------|------------|
|-----------------------------|------------|

The descriptive statistics of the dependent and independent variables in the model are displayed in Table 4 above. From 2010 to 2018, the average value of INDEV, PAYE, RT and VAT are N356.0222 billion, N152.8367 billion, N8.411111 billion and N71.14778 billion respectively. These figures may be compared with the maximum values of INDEV, PAYE, RT and VAT which are N699.1000 billion, N190.6600 billion, N 9.540000 billion and N103.2000 billion respectively. It can be concluded that the means of all the variables are lower than its maximum values. Skewness is a measure of asymmetry of the distribution of series around its mean. The skewness of Infrastructure development (INDEV), Road tax (RT) and Value Added Tax (VAT) is above zero. It indicates a positive skewness. Thus, there is a right longtailed distribution for the observation of each of the variables. The skewness of Pay as You Earn (PAYE) is below zero thus showing a negative skewness and the variable is skewed to the left. The Kurtosis of a normal distribution is 3. Table 4 further shows that INDEV, PAYE, RT and VAT each have a Kurtosis of less than three, indicating that each of the distributions is platykurtic. The standard deviation values of INDEV(183.4620), PAYE (0.652025), RT (17.19441), and VAT (29.31345) show that the mean serves as a good representation of the population parameters.

#### **Test of Hypotheses**

In an attempt to test the three hypotheses stated earlier in this study, the variables were tested using Autoregressive Distributed Lag (ARDL) model through the use of E-views

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version 11.0 to determine the extent to which the independent variables (RT, VAT, and PAYE) influence the dependent variable (INDEV) in this study, that is, to determine the predictive power of the impact of state government revenue on infrastructural development in Lagos state. The Autoregressive Distributed Lag (ARDL) model was used to examine the short run impact of state government revenue on infrastructural development since there is no long run relationship among the variables as indicated by the Bounds test. The data in Table 1 on Pay-As-You-Earn (PAYE) and Road Tax (RTAX) are regressed against Infrastructure development in Lagos state, and the results obtained are presented in Table 5 below.

# Table 5: Impact of State Government Revenue on Infrastructure development in LagosState

Dependent Variable: LOG(INDEV)

Method: ARDL

Date: 09/25/19 Time: 04:25

Sample (adjusted): 2011 2018

Included observations: 8 after adjustments

Maximum dependent lags: 1 (Automatic selection)

Model selection method: Schwarz criterion (SIC)

Dynamic regressors (0 lag, automatic): LOG(PAYE) LOG(RT) LOG(VAT)

Fixed regressors: C

| Variable           | Coefficient | Std. Error     | t-Statistic | Prob.*   |
|--------------------|-------------|----------------|-------------|----------|
| LOG(INDEV(-1))     | 0.640678    | 0.331259       | 1.934072    | 0.1486   |
| LOG(PAYE)          | 1.660761    | 0.416338       | 2.800792    | 0.0195   |
| LOG(RT)            | -3.404761   | 1.927202       | -1.766686   | 0.1755   |
| LOG(VAT)           | 0.160042    | 1.045177       | 0.153124    | 0.8880   |
| С                  | -2.755174   | 3.864237       | -0.712993   | 0.5273   |
| R-squared          | 0.868725    | Mean depende   | nt var      | 5.800227 |
| Adjusted R-squared | 0.693691    | S.D. dependen  | t var       | 0.504633 |
| S.E. of regression | 0.279290    | Akaike info cr | iterion     | 0.556039 |
| Sum squared resid  | 0.234009    | Schwarz criter | ion         | 0.605690 |
| Log likelihood     | 2.775845    | Hannan-Quinn   | criter.     | 0.221163 |
| F-statistic        | 49.63191    | Durbin-Watson  | n stat      | 2.196947 |
| Prob(F-statistic)  | 0.000000    |                |             |          |

\*Note: p-values and any subsequent tests do not account for model selection.

# Ho1: Road Tax has no significant effect on infrastructure development in Lagos State

Table 5 shows the short run regression of the Autoregressive Distributed Lag (ARDL) result for the study. From the results, Road Tax (RT) has a negative coefficient of -3.404761

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which is insignificant with a p-value of 0.1755. The interpretation of the negative coefficients of RT indicates that an increase in RT by 1 unit will lead to a decrease in Infrastructure Development by 3.404761 holding other variables constant.

The F-statistic shows a significant probability value since 0.000000 is less than 0.05). This means that the effect of the independent variables (PAYE, RT and VAT) on the dependent variable (INDEV) did not happen by chance. Since the probability value of Road Tax (RT) of 0.1755 is greater than the 5% level of significance, the null hypothesis is hereby accepted.

#### Ho<sub>2</sub>: VAT has no significant impact on infrastructural development in Lagos State

According to the Autoregressive Distributed Lag (ARDL) results in table 5, Value Added Tax (VAT) has a positive coefficient of 0.1600 which is insignificant with a p-value of 0.8880. The interpretation of the positive coefficients of VAT indicates that an increase in VAT by 1 unit will lead to a 16% unit increase in infrastructure development (INDEV). Since the probability value of Value Added Tax (VAT) of 0.880 is greater than the 5% level of significance, the null hypothesis is hereby accepted.

# HO<sub>3</sub>: There is no significant relationship between PAYE and infrastructure development in Lagos State.

According to the Autoregressive Distributed Lag (ARDL) results in table 4.5, Pay-As-You-Earn has a positive coefficient of 1.660761 which is significant with a p-value of 0.0195. The interpretation of the positive coefficients of PAYE indicates that an increase in PAYE by 1.660761 units will lead to a unit increase in Infrastructure Development. Since the probability value of PAYE of 0.0195 is less than the 5% level of significance, the null hypothesis is hereby rejected.

The values of the Adjusted R-Squared of 0.6937 implies that RT, PAYE and VAT explained about 69.37% systematic variations in the dependent variable (INDEV) over the observed years while the remaining 30.63% variations are explained by other determining variables outside the model.

#### **DISCUSSION OF FINDINGS**

In assessing the impact of state government revenue on infrastructural development in Lagos state, three explanatory variables were taken into account: road tax (RT), value added tax (VAT) and pay-as-you-earn (PAYE). The results of our study showed that Road Tax (RT) has a negative but insignificant effect on Infrastructure Development of Lagos State Government.

The results of our study also show that value added tax has a positive but insignificant relationship with the infrastructure development of Lagos State Government. The findings from our study is consistent with the results of Inyiama, Chinedu and Nnenna (2017) and Anyaduba and Aronwan (2015) which reported that value added tax has a positive but insignificant effect on infrastructural development in Nigeria.

However, pay-as-you-earn (PAYE) was found to also have a positive and significant impact on infrastructure development of Lagos State Government. The findings of our study however corroborate the results of Oladipupo and Ibadin (2016) and Nnanseh and Akpan (2013) which states that IGR contributed significantly and positively to the provisions of water, electricity and road in Nigeria.

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# CONCLUSION AND RECOMMENDATIONS

This study assessed the impact of state government revenue on infrastructure development in Lagos State, Nigeria, using data from 2010-2018. Generally, it can be seen from this study that the variables representing state government revenue has significantly and insignificantly impacted on infrastructure development of Lagos State represented by capital spending. The study reveals a significant relationship between PAYE and infrastructure development in Lagos state. The study further indicates that road tax and VAT are not prevalent variables influencing infrastructure development in Lagos state.

In conclusion, the study that internally generated revenue (IGR) plays important and significant role in developing the infrastructure of Lagos state, if the Lagos state government can be both effective and efficient in the collection and keeping of accurate data in the state, thereby, increasing the states revenue. This ultimately will lead to more revenue in which the Lagos state authorities can use to finance their capital projects with little or no borrowings.

In view of the above, the following recommendations were made:

- i. The Lagos State government should harness its potentials in terms of procedure for collection of Value Added Tax (VAT) in the state.
- ii. Those sources of revenue that are significant such as PAYE should be reconstructed and re-engineered through public awareness, keeping of accurate data and methodical manner of collection. Lagos state government has great potential to become one of the most efficient and highest revenue generating government if efforts are made to improve assessments and collections.

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# FEDERAL UNIVERSITY OTUOKE JOURNAL OF MANAGEMENT SCIENCES

# STRATEGIC ORIENTATION AND PERFORMANCE OF SMALL SCALE ENTERPRISES (SMES) IN DELTA STATE

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#### ABSTRACT

A firm's strategy influences its structure, investment, activity, relations with the market, and performance. The performance of small and medium enterprise, SMEs, in Nigeria greatly relies on the strategic orientation of the enterprise. The general objective of the study is to examine the effect of strategic orientation on organizational performance of SMEs, in Delta State. The study employed the crosssectional survey research design method. In order to select the sample respondents; stratified random sampling method was employed. Out of the 550 employees of the selected SME's, 226 employees were chosen as the sample size for the study. Data was gathered to test the hypotheses of the study with structured questionnaire. Both descriptive and inferential statistics were employed for analyses of respondents' opinions. Findings showed that market orientation, competitor orientation and technology orientation, which are the dimensions of strategic orientation, have significant positive relationship with organizational performance. Market orientation has the highest positive effect on organizational performance. The study concluded that strategic orientation has effect on organizational performance in the statistics in Delta State. It was recommended that strategic orientation can be done in isolation, but it is much more effective when done in a participatory exercise involving all key stakeholders of the enterprises to create synergy for effective results and market success.

# Keywords: Strategic Orientation, Market Orientation, Competitor Orientation, Technology Orientation, Performance

#### INTRODUCTION

The need for firms to behave strategically in a competitive environment inorder to gain competitive advantage while trying to maintain current market leadership is important in realizing firm level of profitability. Currently, increasing customer demands, globalization, government regulations, and severe competition and substitute services put huge pressures

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time (Masa'deh, Al-Henzab, Tarhiniand, & Obeidat, 2018).

on firms. Accordingly, enterprises have to create novel philosophies that determine the decision-making framework, plans, the nature and scope of their activities, which guarantee the growth and sustainability of the enterprise. While it is difficult to attain strategic competitiveness in such turbulent and complex markets, (Ekakitie, 2018; Al-dalahmeh, Khalaf & Obeidat, 2018) enterprises use different methods to attain the right level of competitive advantage in their pursuit to ease such difficulties. These difficulties if allowed to fester and accumulate could create a deficit of clear and deep understanding of what influence organizational performance. The aim of any strategic orientation is to attain the

The rise and fall of firms across the globe depend on one simple rule of how it can prioritize on the strengths and opportunities available to respond to threats and minimize weaknesses (Baker & Sinkula, 2015). For a firm to be successful, its product must satisfy customer need in the marketplace (Ogunkoya & Shodiya, 2013). As an offshoot to this axiom, firms generally anticipate that the marketing concept and customer-orientated behaviors should guide marketing mix decisions. If an enterprise has a clear road map on where it is headed, there is no doubt it will accomplish its set goals. Although weaknesses and threats exist, a company can overcome competitive challenges using its strengths and available opportunities. However, many businesses fail because they cannot identify what they are good at or weak in and thus drawing a strategic direction become challenging due certain situations (Lechner & Gudmundsson, 2014). Hence, many firms remain in the 'firefighting' mode of handling what comes their way daily not knowing they need to recognize the specific business strategy, practice what they are best at and focus on realizing short term and long term goals amidst their weaknesses and threats.

right level of performance returns that allows firms to be competitive and to survive over

Some firms neglect charting a clear road map of success because they only focus on what is happening presently oblivious of wider dynamics in the business environment. Thus, they become reactive rather than proactive (Mwaura & K'Obonyo, 2018). Strategic orientation can be done in isolation, but it is much more effective when done in a participatory exercise involving all key stakeholders of the enterprise. The strategy's rational outcome can then be understood and accepted by all decision-makers and field employees (Mwaura & K'Obonyo, 2018). A firm's strategy influences its structure, investment, activity, relations with the market, and performance. Al-Ansaari, Bederr and Chen (2015) stated that firms can utilize their strategies as a way to create new capabilities and solve problems. While a strategy can provide the framework to help the firm and its managers deploy required capacities, it equally helps identify new opportunities for providing customers with acceptable products and services. This can also deliver and sell such products or services in the marketplace with higher profits through strategic orientation. The strategic orientation of an enterprise reflects the strategic directions employed to make the right behaviors for the sustainability and the peak performance of its business (Chahal, Chahal, Dangwal, Dangwal, Raina & Raina, 2016).

Organizational performance is the end result of activities that include the actual outcomes of the strategic management process (Wheelen & Hunger, 2017). Tomal and Jones (2015) stated that organizational performance is the actual outputs or results of a firm as measured against that firm's intended outputs. The performance of small and medium enterprise in Nigeria greatly relies on the strategic orientation of the enterprise. An

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enterprise will succeed in business if it has the focus on what it can do best, how it can improve customer experience, engage the employees to understand the strategy and draw up a calendar of how to attain the desired objectives (Scott-Kennel & Giroud, 2015). Small and medium enterprises could therefore grow in leaps and bounds if they see the secret of having a well-defined strategy orientation and executing it as it has a direct influence on the performance of the enterprise. Once an enterprise has no direction, it means anything will be accepted as progress and there will be no measuring rod to gauge how better or worse an enterprise has performed. Some enterprises could plunge into frustration if they fail to have a noticeably cut strategy orientation.

The performance of SMEs specifically in Nigeria has not been particularly excellent. The relationship between strategic orientation and organizational performance has been a subject of growing interest in the field of strategy studies (Hill, Jones and Schilling, 2014). Despite this trend, there has been little attention given to this relationship. Strategic orientation is typically linked with large organizations. SMEs are generally managed by owner-managers who make strategic decisions typically based on realistic perception. Therefore, the study aims to examine the effect of strategic orientation on organizational performance of SMEs. The study also aims to determine the effect of market orientation, competitor orientation and technological orientation on organizational performance.

#### LITERATURE REVIEW

#### **Strategic Orientation**

Strategy is situational, multi-dimensional and encompasses the positioning and adaptation of a company's internal capabilities, resources, activities and combinations thereof, both in response to threats and in taking advantage of opportunities present in the firm's external environment. Strategic orientation refers to the way in which a company adapts to its external environment (Avci, Madanoglu & Okumus, 2011). In other words it is the pattern of responses that an enterprise makes to its operating environment in an effort to improve performance and attain competitive advantage (Kumar, Boesso, Favotto & Menini, 2012).

Strategic orientation is the principles that direct and influence the activities of an enterprise and generate the behaviours intended to ensure the viability and performance of the firm. These principles can be employed to guide the activities of the firm (Masa'deh, Gharaibeh, Tarhini & Obeidat, 2015; Shannak, Obeidat & Masadeh, 2012). Strategic orientation entails different steps which consist of defining the problem area, identifying strengths, weaknesses, opportunities and threats from internal capabilities analysis (Coles, Lemmon & Meschke, 2012). It involves recognizing the strengths and weaknesses (from external analysis) while short listing the opportunities and threats based on joint discussion or brainstorming. Developing strategic options and generating concrete strategic options that would take advantage of this opportunity or reduce possible threat. Related researches on strategic orientation are either conducted in a holistic approach or a subdivision approach, that is, strategic orientation is a mix covering entrepreneurial orientation, marketing orientation and learning orientation (Liu and Fu, 2011).

Studies on strategic orientations have particularly flourished over the past two decades, with extensive attention from researchers in the areas of management, entrepreneurship and marketing (Hakala 2011). They have examined a number of strategic

orientations such as relationship orientation (Sin, Alan, Tse, Yauand Jenny, 2005a), market orientation (Chad 2013), entrepreneurial orientation (Zhao, Yuan, Soo & Long, 2011), technology orientation (Hortinha, Carmen & Luis, 2011) and learning orientation (Wu & Lin 2013).

Cadogan (2012) posit that strategic orientations are simply reflections of how some firms operate. For example, a firm is said to be market oriented if it devotes its resources to gathering market intelligence in order to better respond to customer needs. Benson-Rea, Roderick and Herbert' (2013) show that the increasingly dynamic business environment and strong financial pressure have driven firms to employ multiple business models simultaneously to maximise value creation. As a result, there have been continuous calls from empirical studies to investigate multiple strategic orientations simultaneously (Cadogan 2012; Hakala 2011; Mu & Di Benedetto 2011). In particular, there is a further need to investigate the potential interaction effects of different strategic orientations on business performance. The dimensions of strategic orientation revolve around the ability of an enterprise to match and balance the strengths, weaknesses, opportunities and threats. Drumaux and Joyce (2014) posit that strategic orientation is a particular technique adopted to develop strategies. It is a method based on the analysis of strengths, weaknesses, opportunities and threats (SWOT). It generates a number of realistic alternatives and provides a prioritization. However, identifying strengths, weaknesses, opportunities and threats is not enough. Depending on their joint pattern strategic choices have to be made. Strategic orientation is a technique to integrate and match strengths, weaknesses, opportunities and threats in order to arrive at a number of strategic options from which a choice can be made (Bloom, Genakos, Sadun & Van Reenen, 2012).

# **Organizational Performance**

Organizational performance is a broad concept that includes both financial performance, as well as operational performance indicators. Performance measurement depending only on financial indicators is not enough; hence non-economic indicators (market share, product development or production efficiency) are used for measuring business performance (Dahan & Shoham, 2014). Moreover, achieving superior performance represents a central area in strategic management and marketing management (Tutar, Nart & Bingöl, 2015). In the same view (Reijonen, Hirvonen, Nagy, Laukkanen & Gabrielsson, 2015; Deutscher, Zapkau, Schwens, Baum & Kabst, 2015) argued that the financial measurement is not sufficient for understanding organizational performance because of the complexity of the variables. Non-financial measurement has increased due to this observation. A work environment that is set out on how they can best work together to achieve the required results will lead to performance. Performance is the end result of activities. It includes the actual outcomes of strategic management process (Agha, Alrubaiee & Jamhour, 2012). Many performance measurements and models have been developed and supported by various authors, such as: profitability, productivity, efficiency, effectiveness, adoptability, growth and innovation (Harrim, 2010). Organizational performance is a measurable result and the organizational decision includes the success and accomplishment of options and choices earlier made. Costs are key parts of performance - while performance includes competitive purpose, spiritual prevalence, reliability, flexibility, quality and rapidity (Amirkhani & Reza, 2015).

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Performance could be estimated in both objective and subjective methods. For this purpose, there are three types of factors that have been mostly engaged in organizational performance studies: profitability, growth and market share expressed by non-financial or financial indicator. Since financial indicators and performance indicators are even weakened, particularly in the changing competitive environment, non-financial performance should be represented in order to fill the gap of incomplete information (Zehir, Can & Karaboga, 2015). Therefore, performance measurement has been defined as the process of quantifying activities that lead to performance, from the perspective of strategy. Organizations achieve their goals by satisfying their customers with higher efficiency and effectiveness than their rivals (Maurya, Mishra, Anand & Kumar, 2015). Organizational performance. It is described as the scope to which the organization is capable to match the scope of its stakeholders and its own needs for survival. Although financial and operational results are inter-related, they nevertheless reflect different face of organizational performance and their normal direction is complicated (Lau, 2011).

We hereby peruse the various types of orientation vis-a-vise organizational performance.

# **Market Orientation and Organizational Performance**

Market orientation is the culture which supports the creation of values in the market and is oriented by the market in order to attain competitive advantage (Hasan, Sima & Dursun, 2015). Market oriented enterprise culture is to sensitize all activities of the enterprise to the changes in the market and to be reproduced. Marketing was positioned among top functions of an enterprise, which showed the fact that all the marketing functions need to be coordinated and integrated in order to maximize profit on long term (Kirca, 2011). By using marketing orientation, enterprises manage to satisfy their customers' needs over the long term (Chad, 2013; Kirca, 2011). Market orientation developed its origins from marketing as the management philosophy meaning that the company goals are to determine the needs and preferences of consumers and to deliver customer satisfaction. Market orientation leads to better positioning of the market; it tends to maximize the methods on how to create an offer that is designed based on the preferences of the target market (Kim, Imand Slater, 2013).

When a company follows market orientation to create value for a customer that is rare and difficult to imitate it can be a sustainable source of competitive advantage which will enable firms to outperform their less market-oriented competitors (Altuntaş, Semercioz, & Eregez, 2013). Market orientation is a centrally relevant idea on marketing in a growing number of fields. Although the concept of market orientation has received considerable attention and how firms develop greater market orientation has become a main concern. Research in strategic management has identified the attributes of market-oriented firms, so the market orientation is a foundation of marketing and is increasingly relevant in other fields such as strategic management. However, how firms change to become more market-oriented has received less attention (Altindag & Zehir, 2012).

Researchers' effort to provide a perfect understanding of the impact of marketing on organization performance was reflected in many studies which indicate a positive relationship between market orientation and performance (Kumar Subramanian & Strandholm, 2011; Kirca, 2011; Idar, Yusoff & Mahmood, 2012). Any competitive

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environment brings about changes in companies and forces managers to search for the best strategies that will support the firm to gain or sustain a competitive advantage in the marketplace (Avci, Madanoglu & Okumus, 2011).

Jaworski and Kohli (2013) suggest that the relationship between a market orientation and performance appears to hold across a range of contexts, and that it may aid performance in spite of the company's external circumstances. Slater and Narver (2010) found little support for the effect of competitive environment and suggest that a market oriented firm should be prepared to achieve and sustain competitiveness. They state that market orientation influence performance in different ways, either by providing a customer oriented focus or reshaping a company's culture for developing greater value for customers. Chahal and Kumari (2011) emphasize the need for organizations to move from the level of studying customer segments to shaping separate offers, services and messages to individual customers. Hence such organization may need to collect information on each customer's past transactions, psychographics, demographics, distribution and media preferences. And they would hope to attain profitable growth via expenditures by building high customer lifetime value (Slater & Narver, 2010). Thus:

 $Ha_1$ : There is a significant positive relationship between market orientation and organizational performance.

# **Competitor Orientation and Organizational Performance**

Competitor orientation is the ability to foresee current and potential competitors' strengths and weaknesses in the short term; their competence, efficiency and strategies in the long term (Hasan, Sima & Dursun, 2015). A manager with a competitor orientation wants to succeed over others even at the cost of profitability (Bendle & Vandenbosch, 2014). Competitors are the most relevant stakeholders in an industry that a firm must observe seriously. An enterprise is forced to act persistently so that its customers will not be attracted by its competitors. A company must present its products to the customer optimally, indicating how it is different from its competitors. It must at all times proceed at high levels and be respectful towards its competitors, in spite of the fierce competition (Dahan & Shoham, 2014).

Competitor orientation is the focus on in depth assessment of a group of selected competitors. Under this kind of strategic orientation, firms focus on the competitor. The aim of strategic functions is to offer capabilities and resources as well as to circulate the information gathered from this estimation. The competitor orientation entails the continuous observation of the competitor and getting opportunities by producing products and services that are distinct from those of competitors (Reulink, 2012; Al-Mohammad, 2010). Competitor orientation minimizes the company's profitability in order to be better than the rival by pressure. Therefore, organizations should not only focus on rival tactics, but focus on maximizing their own profits. Thus:

# Ha<sub>2</sub>: Competitor orientation has a significant positive relationship with organizational performance.

#### **Technology Orientation and Organizational Performance**

Technology orientation involves behaviours such as strong commitment to research and development (R&D), the application of the latest technologies in new product development, and acquisition of new technologies from both inside and outside of a firm's

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industry (Mu andDi Benedetto 2011; Yang, Qing, Hengyuan & Guisheng, 2012). As such, technology orientation enables the firm to have a dual focus on internal resources (e.g. scientific expertise, design and production processes) and external opportunities (e.g. scanning for new technologies) (Yang, *et al.*2012). In relation to the consequences of technology orientation, studies have shown that it positively impacts innovation-related outcomes such as innovation performance (Yang et al. 2012) and new product commercialization performance (Mu & Di Benedetto 2011).

However, given that investing in R&D and acquiring new technologies requires significant financial resources upfront, it is possible that the positive effect of technology orientation may not manifest in the short term. Chandler (2010) contends that technologically-oriented companies devote their resources to acquiring new and advanced technologies and developing new products, processes and services hence high organizational performance, although, the rate of technological changes within an industry might influence their technological adoption and/or development.

Firms that have used a technology orientation aim at advances in innovations, technology and investments are made in irregular innovations and upsetting technologies on the assumption that entirely new market will appear (Drumaux & Joyce, 2014). However, technology is characterized by its high extent of uncertainty, indicated in aspects such as the level of output generated, the time in which these returns are produced, and the specific area of application. Additionally, even though companies develop technologies, rival companies might readily use these technologies, with the results that no benefits are harvested by technology orientation firms. There is even risk about whether the outcome expected from the technology investment will really be attained (Ameer & Othman, 2012).

Technology orientation is consistently perceived to be associated with new product development (Kim *et al.* 2013; Yang et al. 2012). Firms that emphasize technology orientation endeavour to satisfy unmet customer needs by using state-of-the-art technologies in new product development (Yang *et al.* 2012). Mu and Di Benedetto (2011) argue that technology orientation is highly effective in achieving product differentiation and promoting product designs that surpass those of competitors. Kim *et al.* (2013) support Mu and Di Benedetto's (2011) argument and find that technology orientation contributes to the novelty and uniqueness of new products. Firms with a strong technology orientation have a strong commitment to R&D, acquire new technologies, and apply them in new product development (Yang et al. 2012). Such technological superiority is difficult to imitate and, therefore, it forms a competitive advantage (Mu & Di Benedetto, 2011). Thus:

**Ha<sub>3</sub>**: There is a significant positive relationship between technology orientation and organizational performance.

# **Theoretical Framework**

# Strategic Management Theory

Strategic management theory was propounded by Drucker in (1954) who was a prolific management theorist. Strategic management theory deals with the formulation and implementation of the main aim and initiatives taken by a firm's top management on behalf of owners, based on consideration of resources and an evaluation of the internal and external environments in which firms competes. Slater and Narver (2010) noted that a collection of ideas which set forth general rules on how to manage a business or the firm. Management theory addresses how supervisors and managers relate to their firms in the

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knowledge of its goals, the execution of effective means to get the goals accomplished and how to motivate workers to perform to the highest standard. Before changing company's leadership style, managers should make sure it does need altering. A new style may sound promising, but maybe what the company will be doing now works just fine. An assessment can also help the company identify strengths and weaknesses, so it can better determine what management theory is right for the organization.

Selznick (2007) asserts that central management is the mandate to only hire employees who possess the specific skill-set the job requires. Weber worried about the influence of nepotism, fearing firms would hire individuals not qualified for a job, and this would hinder the efficiency of the entire organization. By precisely evaluating an applicant's abilities, you ensure you hire only those who are a good fit for the job and the enterprise. This theory is relevant to the study since it promotes a systematic approach to strategy formulation that is rooted in the mission or purpose of the SME and tests the implementation choices and actions of the firms against that mission. The mission creates the direct basis for the particular targets the enterprise will select and attempt to attain the enterprise goals. It defines the form, nature and extent of assessment of the enterprise and its environment; as well as the nature of the corporate and business level decisions it makes.

#### METHODOLOGY

The research design that was employed for this study is the cross-sectional survey research design method. It is the choice of the researcher because it aids the researcher in the assessment of respondent's opinion at a particular point in time. In order to select the sample respondents, stratified random sampling method was employed. Stratified random sampling helped to represent not only the overall population, but also key subgroups of the population. The study population constitutes employees, managers and owners of key SMEs in four commercial cities of Delta State. A total of 550 respondents whom are employees and managers in these key SMEs in Delta State comprise the scope of the research population. The sample size that is a representation of the population which is studied in place of the entire population was determined by using Krejcie and Morgan (as cited in Kenpro, 2012) sample size determination table. To make up this subset, the approximate number was 226.

Data was gathered to test the hypothesis of the research with structured questionnaire. Primary data were gathered from the distributed questionnaires of the Likert-typed scale. To establish the reliability of the instrument, a test-retest method was employed. Hence, for this study a pre-test of the questionnaire was done. This pre-test enabled the researchers to detect certain irregularities that could have hampered the consistency of the study. Changes were made accordingly and the inputs of expert assessors were taken into consideration. Measurement of the model of reliability was assessed using Cronbach's alpha based tests. Cronbach's alpha provides an estimate of the indicator intercorrelations, an acceptable measure for Cronbach's alpha is 0.7 or higher, while bellow 0.7 connotes weak reliability (Seckaran, 2003). From Table 1 it was observed that the reliability coefficients were above the 0.7 benchmark. Favorable reliable scores were obtained from all the items in general. The estimation reported acceptable internal consistency. To meet the specified research objectives, quantitative data analyses were used for the study. Both descriptive and inferential statistics methods of data analyses were employed. Descriptive

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statistics like frequency distributions and inferential statistics like multiple regressions was used to elicit meaningful information.

# **Results Tabulation**

# Table 1: Reliability coefficients of study constructs

| Dimension of study constructs | Number of items | Cronbach's Alpha coefficient |
|-------------------------------|-----------------|------------------------------|
| Market Orientation            | 4               | 0.717                        |
| Competitor Orientation        | 4               | 0.712                        |
| Technology Orientation        | 4               | 0.711                        |
| Organizational Performance    | 4               | 0.721                        |

# Table 2: Model summary of R square

**Model Summary** 

|       |                   |          | Adjusted R | Std. Error of the |
|-------|-------------------|----------|------------|-------------------|
| Model | R                 | R Square | Square     | Estimate          |
| 1     | .899 <sup>a</sup> | .808     | .805       | .6671             |

a. Predictors: (Constant), technology orientation, market orientation,

competitor orientation *Source: field data, 2019* 

# **Table 3: Analysis of Variance**

#### ANOVA<sup>a</sup>

| Model |            | Sum of Squares | Df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 395.071        | 3   | 131.690     | 295.959 | .000 <sup>b</sup> |
|       | Residual   | 93.887         | 211 | .445        |         |                   |
|       | Total      | 488.958        | 214 |             |         |                   |

a. Dependent Variable: organizational performance

b. Predictors: (Constant), technology orientation , market orientation , competitor orientation *Source: field data, 2019* 

# Table 4: Regression Analysis Regarding Dimensions of Strategic Innovation

**Coefficients**<sup>a</sup>

|      |                        | Unstandardize | ed Coefficients | Standardized<br>Coefficients |        |     |
|------|------------------------|---------------|-----------------|------------------------------|--------|-----|
| Mode | el                     | В             | Std. Error      | Beta                         | Т      | Sig |
| 1    | (Constant)             | -1.027        | .676            |                              | -1.519 | •   |
|      | Market orientation     | .585          | .043            | .578                         | 13.595 | .(  |
|      | Competitor orientation | .166          | .049            | .155                         | 3.418  | .(  |
|      | Technology orientation | .294          | .045            | .277                         | 6.542  | .(  |

a. Dependent Variable: organizational performance *Source: Field data, 2019* 

# **DISCUSSION OF RESULTS**

A total of 226 copies of structured questionnaire were distributed to the respondents across the four commercial cities of Delta State under study and out of the 220 copies returned 215 were properly filled. Therefore, the analysis for this study was based on the

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sample size of 215.The study showed that on the gender composition of the respondents 53% of the sample were males while 47% were females. The age bracket of the respondents showed that 20% of the respondents were below 30 years of age; 37% of the respondents' falls within the age bracket of 31-40 years of age, while 43% of the respondents were above 41 years of age and above. The marital composition of the respondents indicated that 40% of the sample respondents were single, while 60% other respondents were married. On the educational background of the sample, it was revealed that 30% of the respondents were OND/NCE holders, 56% of the respondents were HND/B.Sc holders, while 14% of the other respondents were postgraduate degree holders.

The test in Table 2 highlights that the value of the determinant coefficient which is 80.5% on organizational performance of SMEs can be explained by the variables of strategic orientation, while the remaining 19.5% are describable by other factors. The F-test in Table 3 has shown that market orientation (X1) competitor orientation (X2) technology orientation (X3) can predict organizational performance (F(3, 211) = 295.959, p < .0005).

Table 4 indicated that market orientation which is the first variable has the highest positive effect on organizational performance ( $\beta = 0.578$ , P<0.01). The level of significance that was calculated in Table 4 is lesser than the established p-value (0.000< 0.05), therefore the null hypothesis was rejected while the alternate was accepted which states that there is a significant relationship between market orientation and organizational performance. This is consistent with the view of Altuntaş Semercioz and Eregez (2013) that when a company follows market orientation to create value for a customer that is rare and difficult to imitate, it can be a sustainable source of competitive advantage which will enable firms to outperform their less market-oriented competitors. The implication of this finding is that market orientation affects performance in a number of ways, either by providing a customer oriented focus or reshaping a firm's culture for enhancing superior value for customers.

It was shown in Table 4 that competitor orientation which is the second variable has positive effect on organizational performance ( $\beta = 0.155$ , P<0.01). Table 4 indicated that the calculated level of significance is lesser than the p-value of 0.05 (0.001 < 0.05). Therefore, the null hypothesis was rejected while the alternate was accepted which implies that competitor orientation has a significant relationship with organizational performance. This is in agreement with the assertion of Hasan, Sima and Dursun (2015) that competitor orientation is the ability to foresee current and potential competitors' strengths and weaknesses in the short term; their competence, efficiency and strategies in the long term. This implies that competitor orientation has effect on organizational performance of SMEs.

Drawing from Table 4 technology orientation, which is the third variable - it has positive effect on organizational performance ( $\beta = 0.277$ , P<0.01). From Table 4 the calculated level of significance is lesser than the p-value established (0.000 < 0.05), this indicates that there is a significant relationship between technology orientation and organizational performance. In relation to the consequences of technology orientation, studies have shown that it positively impacts innovation-related outcomes such as innovation performance (Yang et al. 2012) and new product commercialization performance (Mu & Di Benedetto 2011). This indicates that technology orientation has been proven to affect organizational performance of small and medium enterprises.

In summary strategic orientation has effect on organizational performance of small and medium enterprises in Delta State. Market orientation, competitor orientation and

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technology orientation which are the dimensions of strategic orientation have significant positive relationship with organizational performance.

# $Y = f(\beta 1X1 + \beta 2X2 + \beta 3X3)$

Organizational Performance = -1.027 + 0.585X1 + 0.166X2 + 0.294X3+ ε

# CONCLUSION

The study concluded that strategic orientation has effect on organizational performance in the small and medium enterprise. Market orientation leads to better positioning in the market and it helps to maximize the approach on how to create an offer that is designed based on the preferences of the target market. When an enterprise follows market orientation to create value for customers that are rare and difficult to reproduce it can be a sustainable source of competitive advantage which will enable firms to outperform their less market-oriented competitors. An enterprise with a competitive orientation will always want to win over others even at the expense of profitability. Competitors are the most relevant stakeholders that an enterprise must observe consistently. An enterprise is forced to act continuously so that its customers will not be attracted by its competitors.

Technology orientation involves behaviours such as a strong commitment to research and development (R&D), the application of the latest technologies in new product development, and acquisition of new technologies from both inside and outside of a firm's industry. As such, technology orientation enables the firm to have a dual focus on internal resources (e.g. scientific expertise, design and production processes) and external opportunities (e.g. scanning for new technologies).

# Recommendations

The study recommended that:

- i. Managers should understand that there is need for firms to behave strategically in a competitive environment in order to gain competitive advantage while trying to maintain current marketing leadership.
- ii. Enterprises should have a clear road map on where it is headed, in order to accomplish its set goals.
- iii. Strategic orientation can be done in isolation, but it is much more effective when done in a participatory exercise involving all key stakeholders of the enterprises.
- iv. Managers should have a well-defined market, competitor and technology orientation programme and implement it effectively because they have direct influence on organizational performance.

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# INTERBANK TRANSACTIONS AND PERFORMANCE OF NIGERIAN BANKS

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#### ABSTRACT

This paper sought to investigate the effect of interbank transactions on the performance of some selected quoted deposit money banks in Nigeria. In doing this, we considered all the quoted banks with relevant data in the banking sector that have consistently published their audited annual financial report up to 31<sup>st</sup> December, 2018. Thus, the analysis scope covers the period (2006-2015). We employed a sample of one hundred and forty (140) observations to ensure adequate observations for statistical testing – we adjusted an unbalanced panel data analysis due to the cross sectional nature of available data. The performance of these banks was measured in terms of returns on assets (RETOA) and net interest margin (GPMAG). We used panel data regression techniques, and the Hausman test was conducted on two unbalanced panel data models. Thereafter, two models were specified and estimated after certifying the normality of the data in the variables in the model. In the respective models, the performance of these banks was measured in terms of RETOA in model I and GPMAG in model II. And based on the outcome, the random effect result was prefer for model I while the fixed effect was preferred in model II. Empirical evidence indicates that interbank transactions is measured by interbank loan and deposit both exert positively on performance as measured by RETOA in model I though in an insignificant manner while in model II, interbank loan and interbank deposit impact positively and negatively respectively on performance as measured by GPMAG though in an insignificant manner too. Based on the outcome of this study, it implies that most quoted banks do not seem to partake in interbank transactions which are expected to impact positively on performance. We therefore recommend that banks should consider interbank loan and deposit relationships as less risky investment options and therefore learn to trust their sister banks to improving their performance.

# Keywords: Interbank Loan, Interbank Deposit, Return on asset, Net Interest Margin

# INTRODUCTION

Interbank transaction describes any loan, deposit, transaction or other relationship between two banks. Interbank transactions provide a great deal of liquidity to the market. Interbank interest rates are often used as benchmarks for other rates. At any moment,

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some banks may find that they can attract more deposit than they can use, while others may be unable to exploit lending opportunities because of a shortage of funds; so non-bank depositors and end-users can more efficiently be brought together if banks transfer funds between themselves. Interbank transactions includes overnight lending, buying/selling of foreign exchange, and interbank deposit and loans respectively. Nautz and Scheithauer (2009), point out that information about interbank interest rates and their determination is required for active management of money market liquidity and short-term money market rates. Central banks influence money market interest rate through their deposit and lending rates and regulating the liquidity stance in the money markets. As Rochet and Tirole (1996) and Furfine (2001), observe that information about interest rates is also of interest from financial stability perspective. As overnight lending in the interbank market is uncollateralized, actual interest rates paid by a bank may indicate the solvency of the borrowing bank and the credit risk associated with the corresponding loan. In particular, banks perceived to enjoy an implicit government guarantee against default due to their possible systemic importance could face relatively lower overnight interest rates. The systemic importance of a bank is often gauged by a bank's size. Banks that are highly interconnected with other financial and non-financial institutions through their balance sheet linkages are often considered to be of systemic importance as well. However, actual interbank overnight interest rates are generally not public information, as loan's terms are agreed upon bilaterally between borrowing and lending banks. One indicator of actual overnight interest rates is indicative lending and borrowing rates quoted by major banks acting as market makers. However, indicative quotes may deviate from actual overnight interbank rates depending on borrower and lender characteristics and other factors related to the liquidity stance in the money market (Acharya & Merrouche, 2009). Hence, precise monitoring of interbank interest rates and careful study of the determination of overnight interest rates paid by different banks is generally not possible unless for banks overnight loans. Still, there can be a need to cross check information provided by banks as they can have incentives to under-report their borrowing costs. A well-functioning interbank market acts as an effectively channel for liquidity management in the banking system. It channels liquidity from institutions with surplus funds to those in need, thus allowing for more efficient financial intermediation and more effective monetary policy implementation. Oversupply or shortfalls in commercial banks' reserves arise from stochastic deposits and withdrawals by customers that create inter-temporal liquidity shocks in banks (Bruche & Suarez, 2010). Moreover, with an interbank market in place, banks ex ante will put aside less liquidity to cushion themselves from shocks. A large fraction of transactions in the economy are negotiated and settled in over-the-counter (OTC) markets. A specific OTC market among Deposit Money Banks in Nigeria is the overnight interbank lending market. The interbank lending market refers to the subset of bank-to-bank transactions that take place in the money market. The interbank lending market is also a market in which banks extend loans to one another for a specified term. Most interbank loans are for maturities of one week or less, the majority being overnight. Such loans are made at the interbank rate (also called the overnight rate irrespective of whether the term of the loan is overnight or not). Low transaction volume in this market form a major contributing factor to the financial crisis of 2007.

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Banks are required to hold an adequate amount of liquid assets, such as cash, to manage any potential bank runs by clients. If a bank cannot meet these liquidity requirements, it will need to borrow money in the interbank market to cover the shortfall. Some banks, on the other hand, have excess liquid assets above and beyond the liquidity requirements. These banks may resort to lending such excesses in the interbank market, receiving interest on the assets. Banks use the interbank market to manage exchange rate and interest rate risk. The interbank rate is the rate of interest charged on short-term loans between banks. Banks borrow and lend money in the interbank lending market in order to manage liquidity and satisfy regulations such as reserve requirements. The interest rate charged depends on the availability of money in the market, on prevailing rates and on the specific terms of the contract, such as term length. There is a wide range of published interbank rates, including the NIBOR, the federal funds rate (USA), the LIBOR (UK) and the Euribor (Eurozone). Efficiency of the interbank market can however be viewed from the performance of banking sector. While the interbank market is assumed a priori and often modeled in the literature as a centralized exchange in which banks smooth liquidity shocks (e.g. Ho and Saunders, 1985; Bhattacharya and Gale, 1987; Freixas and Holthausen, 2005) in reality, the market is decentralized: deals are struck bilaterally between pairs of banks (Stigum and Crescenzi, 2007). This defining market feature may give rise to market inefficiencies (Duffie et al., 2005) and poor performance where small banks may be considered more risky than the large banks, with the latter being regarded as 'too-big-fail'. This may erode the importance of the interbank market in its role of liquidity management thereby compromising the effectiveness of monetary policies. Transactions between banks such as loans between banks and transfers between customers of different banks are settled across the books of a settlement bank. Banks need to have short-term liquidity available with their settlement bank to cover their debit posits. Such liquidity generally consists of certificates of deposit and deposits on banks' accounts with their settlement bank. There are various arguments in the literature concerning the relationship between interbank activities and performance of concerned banks, but we observe divergent views on what constitutes interbank activities and how the activities are operationalized in principle.

There have been several studies on the impact of interbank market on monetary policy, interbank leading and banking sector performance as well as interbank rates and liquidity management (Bache and Barnhardsen, 2009; Carlos, 2013). But we find relatively scanty studies concerning interbank transactions on the performance of deposit money banks especially in Nigeria. Especially since the recapitalization and consolidation policies which came at the wake of recent financial sector liberalization exercise, the nomenclature of the deposit money banks in Nigeria changed. This no doubt has prompted structural shift in the capital structure as well as general resource allocations cum investment opportunities/banking transactions in the banking sector. This study intends to bridge the existing gap in the literature by empirically investigating the effect of interbank transaction and performance giving consideration to interbank transactions such as loans, deposits and transfers which form the core areas in Nigerian banking system. It is noted that banks earn non-interest income from interbank transfers.

The main cardinal objective of this study is to examine the effect of interbank transactions on banks performance data from quoted Nigerian deposit money banks. Specifically, the study intends:

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- i. To determine the effect of interbank loans on bank performance
- ii. To determine the effect of interbank deposits on bank performance

Based on the objectives of this study, the following null hypotheses would be tested:

Ho1: Interbank loan effect on bank performance is not significant

# Ho2: Interbank deposits effect on bank performance is not significant

The remainder of this paper is structured as follows: the second part covers review of some related literature and theoretical framework while the methodology is provided in the third section. The empirical results and discussion is provided in section four. Finally, conclusion and recommendations are provided in section five.

# LITERATURE REVIEW

Scanty empirical literature on the issue exists with varying and limited views. However, the review will begin with theoretical framework followed by related empirical studies. Previous studies have used structural and nonstructural approaches to investigate behavior of the banking market. Structural approaches are mainly based on the traditional industrial organization theory which focuses on the structure-conduct performance (SCP) paradigm and on the efficient structure paradigm. Literature based on structural approaches has investigated how the market concentration weakens the market competition by fostering collusive behavior among firms. Conversely, non-structural approaches assume that factors other than market structure and concentration may affect competitive behavior, such as entry/exit barriers and the general contestability of the market (Panzar & Rosse, 1987; Rosse & Panzar, 1977). This study model the interbank market in the spirit of Bhattacharya and Gale (1987), who in turn build on Diamond and Dybvig (1983). Banks face liquidity demand of varying intensity. Some may need to realize cash quickly due to demands of customers who draw on committed lines of credit or on their demandable deposits. Since idiosyncratic liquidity shocks are non-contractible, this creates a scope for an interbank market where banks with excess liquidity trade with banks in need of liquidity.

Banks can invest in liquid assets (cash), illiquid assets (loans), and in bonds. In their portfolio choice, they face a tradeoff between liquidity and return. Illiquid investments are profitable but risky. Banks can obtain funding liquidity in the unsecured interbank market by issuing claims on the illiquid investment, which has limited market liquidity. Due to the risk of illiquid investments, banks may become insolvent and thus unable to repay their interbank loan. Imperfect competition is examined in Acharya, Gromb, and Yorulmazer (2008). If liquidity-rich banks use their market power to extract surplus from liquidity-poor banks, a central bank can provide an outside option for the latter. Freixas, Martin, and Skeie (2008) show that when multiple, Pareto-ranked equilibria exist in the interbank market, a central bank can act as a coordination device for market participants and ensure that a more efficient equilibrium is reached. This makes unsecured interbank lending risky. To compensate lenders, borrowers have to pay a premium for funds obtained in the unsecured interbank market. This has the advantage of enhancing banks performance against bank concentration. By bank performance, generally it implies whether a bank has fared well within a trading period to realize its objectives. The only document that explains this is presumably the published financial statements. According to Rose (2001), a fair evaluation of any bank's performance should start by evaluating whether it has been able to achieve

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the objectives set by management and stockholders. Certainly, many banks have their own unique objectives. Some wish to grow faster and achieve some long-range growth objective, others seem to prefer quiet life, minimizing risk and conveying the image of a sound bank, but with modest rewards to their shareholders. Ordinarily, stock prices and its behavior are deemed to reflect the performance of a firm. This is a market indicator and may not be reliable always. However, the size of the bank, the volume of deposit and its profitability could be deemed as more reliable performance indicators. For the purpose of this study, profitability indicators, precisely the Return on Equity Capital (ROE) and the returns on Assets (ROA) are used to assess bank performance. These ratios are indicators of management efficiency, and rate of returns. According to Rose, these profitability measures vary substantially over time and from one banking market to another. The ROE and ROA are popularly in use today. In real sense, interbank transactions are supposed to improve performance.

#### **Empirical Studies**

To the researchers' knowledge, Furfine (1999) is the first to document the existence of relationships in the US interbank market. He shows that large institutions form multiple relationships while smaller ones have few counterparties. Furfine (1999) argues that banking relationships play a role in the funds market for smaller institutions that choose to establish relationships to alleviate information asymmetries.

Furfine (2001) also considers that borrowing institutions may build relationships to establish that they are a good credit risk. In this paper, Furfine finds that fed funds rates reflect differences in the borrower's credit risk suggesting that banks monitor the risk present in their interbank transactions. Furfine's work was followed by empirical studies in other countries. Xu Hanfei (2004), by using ECM model, Xu studies the transmission mechanism of central bank loan interest rate to interbank loan interest rate transmission, and finds that the transmission mechanism is asymmetric and dynamic, and the adjustment that central bank transmits to refinancing interest rate is only about 60% direct conducted to the inter-bank market interest rates

In a joint presentation, Ulrike and Jurgen (2004), examined an interbank market model with a heterogeneous banking sector. They showed that banks participate in the interbank market because they differ in marginal costs of obtaining funds from the European Central Bank. Their model showed that this heterogeneity implies intermediation by banks with relatively low marginal costs. The resulting positive spread between the interbank market rate and the central bank rate is determined by transaction costs in the interbank market, total liquidity needs of the banking sector, costs of obtaining funds from the central bank, and the distribution of the latter across banks.

Iveri and Peydró-Alcalde (2005), using a unique dataset from India were able to identify the interbank commitments in order to test contagion in the banking system of an idiosyncratic shock caused due to a fraud in one of the banks. Interestingly, they find that the level of exposure with the failed bank is an important determinant of depositor runs. What makes their result even more intriguing is the fact that information on the exposure with the failed bank was not available to the depositors. Finally, they documented that outstanding interbank claims among other banks intensify the negative impact of the initial shock. Their results provide strong evidence in favour of financial linkages as an important mechanism for contagion and hold important implications for policy formulation.
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Zheng and Du (2007) fit the inter-bank overnight rates by using EGARCH model, finding out the EGARCH (1, 3) model the best fitting one, which fully embodies the overnight lending market information asymmetry. They also do the short term prediction by EGARCH (1, 3) and obtain ideal forecasting effect, thereby determine a suitable model for China's interbank market interest rate forecasting consistent with findings obtained by Cocco, Gomes and Martins (2009). It was showed that, in the Portuguese interbank market, small banks rely more on relationships and that these relationships are established between banks with less correlated liquidity shocks. Similarly, Affinito (2012) shows that, in Italy, domestic banks also establish stable and strong relationships. On their part, Gianfranco and Pasquale La (2009), analyzed the behavior of the Italian e-MID unsecured interbank market during the 2008 financial turmoil, highlighting some peculiarities occurred in the last two years. For this purpose, they examined the interbank transactions within the euro area when the financial crisis started, both in the e-MID and in the over-the-counter interbank markets, and pointing out that the introduction of an anonymous and collateralized segment in the e-MID market since February 2009 may improve the liquidity distribution within the euro area.

The role of asymmetric information about credit risk is emphasized in Heider, Hoerova and Holthausen (2009). The model generates several possible regimes in the interbank market, including one in which trading breaks down. The regimes are akin to the developments prior to and during the 2007-2009 financial crises. Freixas and Jorge (2009) analyze the effects of interbank market imperfections for the transmission of monetary policy .Combining a nested logit model of bank deposit supply with a structural model of competition to measure the impact of the reference interest rates on public debt and interbank markets on the returns on deposits and funding policy of Spanish banks in the period 2003-2010. Carlos (2013), interbank rate was found to be more closely correlated with the return on deposit returns is significantly weaker in the crisis period 2008-2010. Counterfactual analysis shows a significant effect of the interbank rate and investment opportunities in public debt on deposit rates and bank profits, and that observed deposit rates are on average 115bp above collusive levels.

Baoqian, Cheng, Xikun (2012), employed historical time series data of commercial interbank, and examined the interest rate fluctuation distribution characteristics, indicating that EGARCH Model can better fit the rate volatility of the interbank market interest. Their paper calculates the value at risk (VAR) of five major commercial banks using EGARCH Model with such a conclusion that the difference that major commercial banks face is various. The interest risk of state-owned commercial banks and other financial institutions is more serious than the city commercial banks and foreign banks. The interest risk of rural credit cooperatives is the least serious. Carlos (2013), interbank rate was found to be more closely correlated with the return on deposits than the interest rate on public debt, but the connection between interbank rates and deposit returns is significantly weaker in the crisis period 2008-2010. Counterfactual analysis shows a significant effect of the interbank rate and investment opportunities in public debt on deposit rates and bank profits, and that observed deposit rates are on average 115bp above collusive levels.

Affinito (2013) tested the hypothesis of liquidity hoarding in the Italian banking system during the 2007-2011 global financial crises. According to this hypothesis, in periods of crisis, interbank markets stop working and central banks' interventions are ineffective

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because banks hoard the liquidity injected rather than channeling it on to other banks and the real economy. The test uses monthly data at banking-group level for all intermediaries operating in Italy between January 1999 and August 2011. This is the first paper to use micro data to analyse the relationship between single banks' positions vis-à-vis the central bank and the interbank market. The results show that the Italian interbank market functioned well even during the crisis, and, contrary to widespread conjecture, the liquidity injected by the Eurosystem was intermediated among banks and towards the real economy. This finding is robust to the use of several estimation methods and data on the different segments of the money market.

Using broader definitions of the interbank market, Langfield, Liu and Ota (2014) and Lelyveld and Veld (2012) also find a core-periphery structure in the UK and Dutch interbank market, respectively. Consistent with their findings of sparse interbank networks, we see that most banks in the US interbank market establish stable relationships. While Arciero, Heijmans, Heuver, Massarenti, Picillo and vacirca (2016) and Temizsoy, Iori and Montes-Rojas (2017) using a theoretical model arrived at similar conclusion using a similar data set for the Italian e-Mid market. They show that lending and deposit rates are determined simultaneously, and estimations using the Ioan-deposit spread would be biased as a consequence. They find that banks do not use the interbank market only to close any funding gaps or surpluses, but allow them to be active as both lenders and depositors. Thus, there exists a Nash equilibrium in the model that allows all banks to meet their balance sheet constraints.

From the research evidence so far, there has not been a research output of related study from Nigeria on interbank transactions and performance. This study therefore makes an insight in this direction to fill the gap. In this paper, ROA and ROE were proxies for bank performance of the 14 Deposit Money Banks in Nigeria were selected while the extent of variation in these performance variables are affected by interbank lending and deposit.

## METHODOLOGY

The population of this study therefore comprises of all the listed deposit money banks in the Nigerian Stock Exchange that have consistently published their annual reports as stipulated by law uptill 31<sup>st</sup> December, 2018. In doing this, we considered all the quoted banks with relevant data in the banking sector that have consistently published their audited annual financial reports up to 31<sup>st</sup> December, 2018. We employed a sample of one hundred and forty (140) observations, to ensure adequate observation for statistical testing; we adopted an unbalanced panel data analysis due to the cross sectional nature of the available data.

The models are functionally specified as:

RETOA = f(INTBAKL, INTBAKD, EQTTA, FASTA, FSIZE)

GPMAG = f(INTBAKL, INTBAKD, EQTTA, FASTA, FSIZE)

The econometric forms of the models are thus:

 $RETOA_{it} = \beta_0 + \beta_1 INTBAKL_{it} + \beta_2 INTBAKD_{it} + \beta_3 EQTTA_{it} + B_4 FASTA + \beta_5 FSIZE_{it} + U_{it} \dots (1)$  $GPMAG_{it} = \beta_0 + \beta_1 INTBAKL_{it} + \beta_2 INTBAKD_{it} + \beta_3 EQTTA_{it} + B_4 FASTA + \beta_5 FSIZE_{it} + U_{it} \dots (2)$ 

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#### **Empirical Results**

We conducted the descriptive statistics, followed by the correlation analysis, thereafter, the Panel least squares method was used to estimate the specified model. The variables in the study include return on asset (RETOA), return on equity (RETOE), Net interest margin (GPMAG) all being the performance variables which form the dependent variable respectively, while the independent variables include interbank loan (INTBAKL) interbank deposit (INTBAKD), net difference between the interbank loan and interbank deposit (DIFFINT), and the control variables as firm size (FSIZE), asset tangibility (FASTA) and capital adequacy. The model specified was first tested to ensure normality of the data in the variables therein, thereafter, the descriptive statistics as well as the correlation analysis were conducted before the estimation of the model. Looking at the data collected for this study, there is evidence that most of the sampled banks never engaged in interbank deposit. We also observed that where some did, the magnitude was rather too small. For example, fidelity bank, Sterling bank, Unity bank, Wema bank and surprisingly, Zenith bank. It very surprising to note that such banks as fidelity bank, Unity bank and Zenith bank respectively have records of hugged sums of Net interest margin has showed in the data. And the question remains, if these banks in spite of their zero levels of interbank deposits have such high performance as measured by net interest margin, what then are the channels for their net interest earnings?

The descriptive statistics of the data on the variables show the mean for each of the variables, their maximum and minimum values and Jarque-Bera (JB) statistic which forms the normality test. The descriptive statistics provides an insight into the nature of the selected quoted firms that were used as samples in the study as well as the distribution of the data in the variables used in the model. Firstly, the little difference between the maximum and minimum values of firm size (SIZE) shows that the sampled firms are dominated by large and medium banks in terms of the size of the assets of the selected banks for this study. Secondly, we also observe that on the average, over the reference period, all the variables indicate positive values. This implies that there is high level of performance among the sampled quoted banks irrespective of their size and age. In addition, the relative low but though a positive average of the return on asset variable indicates that the selected banks were not able to generate reasonable returns of their asset with the level of management of their cash holdings and their operating efficiency not-withstanding.

On the other hand, the average values of both Net interest margin, interbank loans and capital adequacy variables show that the respective values of the variables of the sampled banks were very high and either being under-utilized, hence failed to generate reasonable returns on both asset and equity position. This justifies the low average value of return on asset variable (RETOA) which indicates (1.07636). For the average value of firm size which show (8.85793), this implies that the sampled firms are more of larger banks in terms of value of total assets. The average value of asset tangibility (4.08857) also show that on the average, the selected banks possess high asset tangibility, while the average value of net difference between interbank loan and deposit did show a low percentage of 10%. This implies that most of the sampled banks have more deposit with other banks but little or no loan to other banks. For example, Guaranty Trust bank, indicates more deposit with other banks, but fail to give out loans to other banks. Lastly, the Jarque-Bera (JB) statistics after adjusting for all missing data and extreme values show that all the variables are normally

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distributed at 1% level of significance except for firm size (FSIZE) and net interest margin (GPMAG) which show significance at 10% and 5% levels respectively. This justifies the reliability of the data collected in the study to a great extent for drawing generalization.

In examining the association among the variables, we employed the Pearson correlation coefficient technique and the results are presented in Table 1 below.

|         | RETOA   | RETOE  | GPMAG   | INTBAKL | INTBAKD | DIFFINT | EQTTA   | FASTA   | FSIZE  |
|---------|---------|--------|---------|---------|---------|---------|---------|---------|--------|
| RETOA   | 1.0000  |        |         |         |         |         |         |         |        |
| RETOE   | -0.0899 | 1.0000 |         |         |         |         |         |         |        |
| GPMAG   | 0.3952  | 0.0082 | 1.0000  |         |         |         |         |         |        |
| INTBAKL | 0.0413  | 0.0442 | 0.0123  | 1.0000  |         |         |         |         |        |
| INTBAKD | 0.0925  | 0.0688 | 0.0975  | 0.3244  | 1.0000  |         |         |         |        |
| DIFFINT | 0.2361  | 0.0184 | -0.0268 | 0.9219  | -0.0672 | 1.000   |         |         |        |
| EQTTA   | 0.4679  | 0.0325 | 0.3171  | 0.1243  | 0.1775  | 0.0587  | 1.0000  |         |        |
| FASTA   | -0.3034 | 0.0056 | -0.2012 | 0.0903  | -0.0087 | 0.0989  | 0.0138  | 1.0000  |        |
| FSIZE   | 0.1676  | 0.1172 | 0.2883  | -0.1647 | -0.0234 | -0.1644 | -0.0849 | -0.5415 | 1.0000 |

Source: Author's computation (2019)

Table 1 above presents the degree of association between the performance variables (RETOA), (RETOE) and (GPMAG) which respectively form dependent variables, and the explanatory and control variables which include: INTBAKL, INTBAKD, EQTTA, FASTA and FSIZE respectively in the specified model. The results show that among the explanatory variables, all show positive association with all the dependent variables except difference in net interest (DIFFINT) which show negative association with Net interest margin (GPMAG) as a measure of performance in this study. With respect to the association among the explanatory and control variables, results indicate that all the variables except interbank deposit (INTBAKD) show negative association with difference between interbank loans and deposits. In addition, among the control variables in the model, FASTA and FSIZE does show negative association with all the explanatory variable (INTBAKD), while FSIZE indicate negative association with all the explanatory variables and other control variables respectively.

The correlation test also reveals that no two explanatory variables were perfectly correlated. This implies that there is absence of multi-collinearity problem in our model, this justifies that the variables are good enough for the regression. Multi-collinearity among explanatory variables may result to wrong signs or implausible magnitudes in the estimated model coefficients, and the bias of the standard errors of the coefficients.

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|               |          | 0             |                 |
|---------------|----------|---------------|-----------------|
|               | Expected | RETOA         | RETOA           |
|               | Sign     | Fixed Effect) | (Random Effect) |
| С             |          | -5.092        | -5.092          |
|               |          | (-0.63)       | (-0.63)         |
|               |          | [ 0.52]       | [0.52]          |
| INTBAKL       | +        | 0.004         | 0.004           |
|               |          | (0.21)        | (0.21)          |
|               |          | [0.82]        | [ 0.82]         |
| INTBAKD       | +        | 0.001         | 0.001           |
|               |          | (0.02)        | (0.02)          |
|               |          | [0.98]        | [0.98]          |
| EQTTA         | +        | 0.239         | 0.239           |
|               |          | (6.50)        | (6.43)          |
|               |          | [0.00]*       | [0.00]*         |
| FASTA         | +        | -0.618        | -0.618          |
|               |          | (-3.28)       | (-3.24)         |
|               |          | [0.00]*       | [ 0.00]*        |
|               | +        |               |                 |
| FSIZE         |          | 0.580         | 0.580           |
|               |          | (0.69)        | (0.68)          |
|               |          | [0.48]        | [0.49]          |
| R-Squared     |          | 0.31          | 0.32            |
| Adj-R-Squared |          | 0.29          | 0.29            |
| F-Statistic   |          | 12.4724(0.0)* | 12.472(0.00)*   |
| Hausman Test  |          | -             | 3.1117(0.68)    |
| N(n)          |          | 140(14)       | 140(14)         |

| Table 2: | RETOA | Unbalanced | Panel | Regression | Results |
|----------|-------|------------|-------|------------|---------|
|----------|-------|------------|-------|------------|---------|

Table 2 above presents the two unbalanced panel data estimation results obtained when we estimated (the fixed effect and random effect versions of the RETOA model. The results reveal that there are insignificant difference in the magnitude and signs of the coefficients of the two results. The results obtained for the fixed effect show that the R-squared and adjusted R-squared values are 0.31 and 0.29 respectively. This indicates that all the independent variables jointly explain about 31% of the systematic variations in return to assets (RETOA) across the quoted sampled firms in the sector under review in Nigeria over the sampled period (2006-2015). The explanatory power of the model can be seen as very strong based on the F-statistics (12.4724) and its p-value (0.0) showing that the RETOA unbalanced panel fixed regression model is generally significant at 1% level. This implies that the variables in the model are strong determinants of performance as measured by returns on assets across the sampled firms over the reference period.

The result with respect to random effect technique shows a similar result but with slight difference. The R-squared and Adjusted R-squared values are 0.32 and 0.29 respectively. This indicates that all the independent variables jointly explain about 29% of the systematic variations in RETOA across the quoted sampled firms in the sector under review in Nigeria over the three-year period (2006-2015). The explanatory power of the model can be seen as very strong too. The F-statistics (12.4724) and its p-value (0.0) show that the Return to asset unbalanced panel random regression model indicate that it is

generally significant at 1% level. This implies that the variables in the model are strong determinants of performance across the sampled firms over the reference period.

In selecting from the two unbalanced panel data models, the Hausman test was conducted and the result shows a Chi-square and prob-value of (3.11177) and (0.68) respectively. This result implies that we should accept the null hypothesis (Ho) which assumes that random effect model is preferred to fixed effect model. This means that we should adopt the random effect panel regression results in our study for the discussion of findings, policy formulation and recommendation(s). On this note, we analyze the full result of the random effect technique. Looking at the coefficients of the random effect results, the empirical evidence shows that interbank loans which is signified by (INTBAKL) variable exerts a positive influence on RETOA, though it failed the significance test. This means that though there is a positive relation between interbank loans and performance in the deposit money banks but the effect is not significant. It also implies that a unit change in interbank loans as a result of efficient management of cash will lead to about 0.0047 unit increase in return on assets. This result suggests that we accept hypothesis one (Ho<sub>1</sub>) which states that the effect of interbank loans on bank performance is not significant.

Similarly, the result also reveals the coefficient and p-value of interbank deposits (INTBAKD) variable as (0.0013) and (0.98) respectively. This implies a positive impact of interbank deposits on performance as measured by return on assets but in a non-significant manner. This outcome also implies that a unit change in interbank deposits due to efficient investment decisions of the selected banks has the tendency to lead to about 0.0013 unit increase in performance. This result suggests that we accept hypothesis two (Ho<sub>2</sub>) which states that the effect of interbank deposits on performance is not significant. The result with respect to capital adequacy (EQTTA) variable shows coefficient and p-value of (0.23994) and (0.00) respectively. This means that capital adequacy exerts positively on performance as measured by return on assets. The result also indicates that the variable passed significance test at 1% level. This implies that a unit change in capital adequacy has the tendency bring about 0.23994 unit increase in performance in a significant manner.

Furthermore, the result with respect to other control variables in the model, for example, asset tangibility (FASTA) variable, indicates a negative (-0.6188) impact on performance, but passed the significance test at 1% level. This means that there is a negative relation between asset tangibility and performance. This is rather surprising, that as significant as asset tangibility seems to determine performance (that is, in terms of returns to the assets) the evidence prove contrary. It also implies that a unit change in asset tangibility will lead to about 0.6188 unit decrease in performance. This result is a pointer to question the kind of assets the sampled firms maintain. Lastly, looking at the effect of firm size (FSIZE) variable which is a control variable in the model, result indicates that firm size exert a positive and insignificant impact on performance. This means that though the size of the firm does necessarily influence the performance, but not in a significant manner. The result also show that the bigger the firm the more the tendency that its performance in terms of return on assets will keep increasing but in an insignificant manner. The model overall is satisfactory given the significance level of 1% of the model as revealed by the prob(F-statistic) value. This justifies the goodness of fit of the model especially for policy formulation purposes.

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Next is to examine the empirical evidence with respect to the GPMAG model. The fixed and random effect estimation results are as presented and discussed below:

|               | Evposted | CDMAC         | CDMAC             |
|---------------|----------|---------------|-------------------|
|               | Expected |               | (Dandam Effect)   |
| C             | Sign     | Fixed Effect) | (Kandolli Effect) |
| t             |          | 96.269        | 48.100            |
|               |          | (3.25)        | (1.87)            |
|               |          | [ 0.00]*      | [0.06]            |
| INTBAKL       | +        | 0.027         | 0.030             |
|               |          | (0.41)        | (0.49)            |
|               |          | [0.67]        | [ 0.62]           |
| INTBAKD       | +        | -0.310        | 0.152             |
|               |          | (-1.53)       | (-0.85)           |
|               |          | [0.12]        | [0.39]            |
| ΕΟΤΤΛ         | 1        | 0.440         | 0.471             |
| LQIIA         | Ŧ        | (2, 02)       | (4, 40)           |
|               |          | (3.92)        | (4.49)            |
|               |          | [0.00]*       | [0.00]*           |
| FASTA         | +        | -1.822        | -1.302            |
|               |          | (-3.02)       | (-2.33)           |
|               |          | [0.00]*       | [ 0.02]**         |
|               | +        |               |                   |
| FSIZE         |          | -3.8111       | 1.276             |
|               |          | (-1.20)       | (0.47)            |
|               |          | [0.23]        | [0.63]            |
| R-Squared     |          | 0.51          | 0.14              |
| Adi-R-Squared |          | 0.45          | 0.11              |
| F-Statistic   |          | 7.2224(0.0)*  | 4.5752(0.00)*     |
| Hausman Test  |          | -             | 18 8035(0 00)*    |
| N(n)          |          | 140(14)       | 140(14)           |
|               |          | ( )           |                   |

Table 3: GPMAG Unbalanced Panel Regression Results

Source: Authors computation (2019)

Table 3 above presents the two unbalanced panel data estimation results obtained when we estimated (the fixed effect and random effect versions of the GPMAG model. The results reveal that there are significant difference in the magnitude and signs of the coefficients of the two results. The results obtained for the fixed effect show that the R-squared and adjusted R-squared values are 0.51 and 0.45 respectively. This indicates that all the independent variables jointly explain about 45% of the systematic variations in performance as measured by the Net interest margin (GPMAG) across the quoted sampled banks in the sector under review in Nigeria over the sampled period (2006-2015). The explanatory power of the model can be seen as very strong based on the F-statistics (7.22247) and its p-value (0.0) showing that the GPMAG unbalanced panel fixed regression model is generally significant at 1% level. This implies that the variables in the model are strong determinants of performance as measured by Net interest margin amongst the quoted deposit money banks in Nigeria.

The result with respect to random effect technique shows that the R-squared and Adjusted R-squared values are 0.14 and 0.11 respectively. This indicates that all the independent variables jointly explain about 11% of the systematic variations in Net interest margin (GPMAG) across the quoted sampled firms in the sector under review in Nigeria over

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the ten-year period (2006-2015). The explanatory power of the model can be seen as very strong too. The F-statistics (4.5752) and its p-value (0.0) show that the GPMAG model is generally significant at 1% level. This implies that the variables in the model are strong determinants of performance across the sampled firms over the reference period. In selecting from the two unbalanced panel data models, the Hausman test was conducted and the result shows a Chi-square and prob-value of (18.8035) and (0.00) respectively. This result implies that we should reject the null hypothesis (Ho) which assumes that random effect model is preferred to fixed effect model. This means that we should adopt the fixed effect panel regression results in the discussion of findings, policy formulation and recommendation(s). On this note, we analyze the full result of the fixed effect technique. Looking at the coefficients of the fixed effect results, the empirical evidence shows that interbank loans (INTBAKL) variable exerts a positive influence on Net interest margin GPMAG, though it failed the significance test. This means that though there is a positive relation between interbank loans and performance (Net interest margin) in the deposit money banks but the effect is not significant. It also implies that a unit change in interbank loans as a result of efficient management of investment opportunities will lead to about 0.02779 unit increase in performance as measured by the Net interest margin. This result suggests that we accept hypothesis one  $(Ho_1)$  which states that the effect of interbank loans on bank performance is not significant. In addition, the result also reveals the coefficient and p-value of interbank deposits (INTBAKD) variable as (-0.310) and (0.12) respectively. This implies a negative impact of interbank Deposits on performance as measured by Net interest margin (GPMAG) but in an insignificant manner. This outcome also implies that a unit change in interbank deposits due to efficient investment decisions of the selected banks has the tendency to lead to about 0.31 unit decrease in performance. This result suggests that we accept hypothesis two  $(Ho_2)$  which states that the effect of interbank deposits on performance is not significant.

The result with respect to capital adequacy (EQTTA) variable shows coefficient and pvalue of (0.4407) and (0.00) respectively. This means that capital adequacy exerts positively on performance as measured by Net interest margin (GPMAG). The variable also passed significance test at 1% level. This implies that a unit change in capital adequacy has the tendency bring about 0.4407 unit increase in performance in a highly significant manner. This also mean that capital adequacy is a strong driver of bank performance, so it a variable to watch out for in order to improve performance in the banking sector. Furthermore, the result with respect to asset tangibility (FASTA) variable, indicates a negative (-1.8229) impact on performance, but passed the significance test at 1% level. This means that there is a negative relation between asset tangibility and performance as measured by Net interest margin. Again, this is rather surprising, that as significant as asset tangibility seems to determine performance (that is, in terms of Net interest margin) the evidence prove contrary. It also implies that a unit change in asset tangibility will lead to about 1.8229 unit decrease in performance.

Looking at the effect of firm size (FSIZE) variable which is a control variable in the model, result indicates that firm size exert a negative and insignificant impact on performance in terms of Net interest margin. This means that the size of the firm does not necessarily influence performance of the deposit money banks. The result also show that the bigger the firm the more the tendency that its performance in terms of net of interbank loans and deposits will keep decreasing though in an insignificant manner.

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The model overall is satisfactory given the significance level of 1% of the model as revealed by the prob (F-statistic) value. This justifies the goodness of fit of the model especially for policy formulation purposes.

## CONCLUSION AND RECOMMENDATIONS

This paper has generally tried to appraise the interbank transactions of sampled banks vis-à-vis their performance as measured by various performance variables. Though, due to unavailability of some relevant data such as interbank transfers, we could not categorically make inferences upon overall interbank transactions in Nigeria. However, our findings that interbank transactions affect performance of quoted banks offer important implications for the assessment of profitability and returns on the asset of a bank from interbank lending, interbank deposit and otherwise.

The overall result appears impressive except for the unanticipated outcome of the relation between interbank deposits and performance as measured by net interest margin which show a negative relationship. It could be deduced from our outcome thus that most of the sampled banks were not duly partaking in most interbank transactions that has the tendency to generate high interests. It could also be a pointer to the fact that most of the banks partake in off-balance sheet transactions which cannot be accounted for among the data used for this study.

On this note, we believe that this paper forms yet a foundation for further research in this direction.

In the light of empirical evidences revealed by this paper, we deemed it fit to make the following subjections:

- 1. Banks in Nigeria should learn to trust their sister banks by giving adequate loan to them. And such loans should target high interest yielding options so as to guarantee returns.
- 2. The Central bank should have a way of enforcing compliance of its policies and regulations in this direction to know exactly the transactions that are accounting for bank performance.
- 3. In the light of the empirical evidence with respect to interbank deposit which still remains a big surprise coupled with
- 4. There should be policy directive to encourage interbank deposit such that should not be detrimental to the receiving bank. Also, the CBN should be very vigilant to ensure that these banks are operating within the legitimate bounds and ensuring the primary goal of money creation in the economy.
- 5. Further studies should try and incorporate pre and post consolidation data in this regard which we believe will be more revealing.

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## FEDERAL UNIVERSITY OTUOKE JOURNAL OF MANAGEMENT SCIENCES

## PERFORMANCE MEASUREMENT AND PROFITABILITY OF BANKS IN NIGERIA

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## ABSTRACT

The aim of this study is to assess the effect of performance measurement on profitability of banks using key indicators. Information about the procedures required for implementation of performance measurement was provided. It employed the Likert-type questionnaire, survey research design and random sampling to obtain primary data. Financial ratios were obtained from the financial statements of banks for the period 2009 - 2015. Guaranty Trust Bank Plc, Sterling Bank Plc and United Bank for Africa were selected for the study. The data collected were analyzed using both descriptive statistics, and regression techniques. The results showed that performance measurement variables were significant in jointly explaining the variance of profitability and that quality service delivery had the highest effect on profitability of banks, employee motivation, handling of customer complaint and level of liquidity had no significant relationship with the profitability of banks. It was concluded that the trend of the labour cost to revenue ratio must be checked regularly in order to track the efficiency of labour in generating revenue each financial year. The study therefore recommends that adequate efforts should be made by banks to make the future results of cost to income ratio low. Also, customer complaints handling should be enhanced and liquidity levels should be well managed so as to boost profitability of banks.

# Keywords: Performance Measurement; Profitability; Employee Motivation; Service Quality; Liquidity

## INTRODUCTION

Performance is not an easy concept and that there is a clear need to study and rethink what is meant by the performance of firm and how to measure it. Meyer (2007) posits that performance has become the mantra of recent years. Many organizations say they pursue performance and strive to measure their performance, enhance performance and compensate their people for performance. Yet, at the same time, there is widespread dissatisfaction with most performance measurement system. Karr (2012) noted that banks are trying to control costs, develop closer relationship with clients and, improve product mix

and pricing choices. To this reason, offering additional services now spur banks to re-assess and enhance their means of measuring and reporting business result.

Organizations today face complex business challenges. For this reason, some economy has forced many organizations to resolve difficult decisions of achieving business results with fewer resources (Rick, 2014). In that the challenging economy necessitates that firms pay meaningful attention to performance measurement. Donovan (2005) points out that what management defined as critical success factors at the strategic level should clearly relate to the process and activity level of the firm. Effectively connecting the drivers of an organization's performance is a precondition to operational performance measurement. Achieving an effective program requires having a conceptually sound business framework that links and integrates strategy, management processes and comprehensive metrics to an effective process for continuous improvement". As intimated by Drury (2008), the balanced scorecard perspective builds a strategic focus by translating an organization's visions and strategies to operational objectives and performance measures for the distinct aspects. Meanwhile, Pollock (2007) envisaged basically that the key performance indicators (KPIs) are tools that a firm could use to define, quantify and follow up its performance through time to accomplish organization goals. As results, Managers are now setting their goals and monitor their activities to see that operations remain as planned and that variances from expected outcomes are investigated and taken care of. The aim of performance measurement is ultimately to drive future improvements in performance. Swanson (1999) conceptualised that a successful performance enhancement practice requires a systemsbased method while considering drivers and outcomes; otherwise, the effort will produce a flawed picture. Siddiqui (2015) explored "the relevance of performance measurement system, in that it improves performance, as well as productivity of firms through cutting costs". Kaplan and Norton (1992) emphasized that performance measurement contributes to strategy design and implementation by showing the connection amongst goals, strategy, lag and lead indicators.

Despite the fact that performance measurement systems have been given increasing attention, researchers still debate the adoption of a structured, strategically-focused performance measurement result in improved business performance (Neely, 2005). While many have repeated that a more balanced performance system gives tangible and intangible benefits (Gubman, 1998; Hoque, 2004; Hoque & James, 2000, Martinez & Kennerly, 2005; Schiemann & Lingle, 1999; Ukko *et al.*,2007), not all investigations report consistently positive outcomes (Ittner & Larcker, 2003; Neely, Mills, Plats, Gregory & Boume, 2004). In line with this reasons, number of researchers have researched on performance measurement but not on the Nigeria Banking industry. The study therefore bridges a gap by researching on the performance measurement on profitability of Nigeria Banking Industry.

#### **Performance Measurement**

Upadhaya, Munir and Blount (2014) describe performance measurement as the practice of gathering, analyzing and reporting information concerning the performance of a person, team, firm, system or component, that it can entail learning processes/strategies within a firm or considering carefully engineering process, parameter and phenomenon to know whether output aligns with what was planned. Barnard (1962) notes performance measurement is an integral part of planning and control cycle. The practice of measuring performance is generally for process design.

Lebas (1995) describes performance measurement as a method through which an organization monitors its day to day activities and evaluates whether it is attaining its objectives. Poister (2003) explains that measuring of performance is meant to result in an objective, provide important information on program or business performance that can be used to strengthen management and inform decision making, achieve results and improve overall performance, and increase accountability. Hoshin (1989) notes organizational performance is a true measure of the effectiveness of a system of management. A functioning organization is one where individuals identify the key variables that should be controlled to satisfy customers and guarantee effectiveness and efficiency. Siddigui (2015) describes the system of performance measurement as a successful approach to align activities with plans being established. Activities are directed through relevant feedback provided which allows managers employ best practices. Measuring performance leads to business success by way of providing knowledge necessary to improve productivity in an organization. Tan (2011) points out that measuring performance presents several purposes in the business organization. Performance measurement for external purposes is an extensive topic in itself. Purposes which are internal are categorized into: guiding employees as well as departments; feedback to modify outcome and regular improvement goals.

#### The Role of Performance Measurement (PM)

Johnson (2007) asserts that the main purpose of executing a performance measurement system is to increase the achievement of a firm so as to better serve its customers, employees, owners and stakeholders. Johnson (2007) further notes that basically, performance measurement system enables an enterprise to plan, measure, and control its performance aligning it towards predefined strategy. Atkinson and McCrindell (1997); De Toni and Tonchia (2001); as cited in Pongatichat and Johnson (2008), identify that the system offers the following benefit: (i)communicates the organization's defined strategy, (ii) builds a shared understanding, (iii) follows up the execution of strategy, (iv) links short-term activities with strategy, (v) distinguishes the connections between performance of individuals, and sub-units and the organization performance, (vi) promote integration among various organizational processes, (vii) facilities organizational learning.

## **Performance Measurement System**

Taticchi, Tonelli, Sameh and Botarelli (2008), in their review notes that in the 1990s, many PM systems and frameworks arose to give integrated solutions; balanced scorecard (BSC) and business excellence model (BEM) or methodologies for fixing some concerns; performance measurement questionnaire (PMQ) and consistent performance measurement system (CPMS). The balanced scorecard (BSC) framework involved some features such as financial and non-financial to give composite measures of performance. Much consideration has been given to the BSC during the last fifteen years and several industries have employed the BSC productively. The models which emerged since 2000 represent further improvement in the knowledge of the process. Kaplan and Norton (1996) noted that the BSC is more than a collection of financial and non-financial measurements. It translates the business unit's strategy into a related set of measures that describe both the long-term strategic objectives and the system for achieving and obtaining feedback on those objectives. The BSC enables managers view the organization from four important perspective such as financial, customers, internal business process and learning and growth (Kaplan and Norton (1996). The BSC allows firms follow up financial results while

simultaneously monitoring progress in molding the capabilities and obtaining the intangible assets they need for future growth.

## **Financial Perspective**

Financial performance measures indicate whether a company's strategy, implementation and executives are contributing to bottom-line improvement. Financial objectives typically relate to profitability-measured, for example, by ROCE or more recently, EVA. Other financial objectives are quick sales growth or creation of cash flow.

## **Customer Perspective**

In this aspect of BSC, managers identify the customer and market segments in which the business units compete and the required measures of the unit's performance in the segments. This perspective typically encompasses various core or generic measures of the successful outcomes from a well - formulated and implemented strategy. The core outcome measures comprise customer satisfaction, customer retention, new customer acquisition, customer profitability and market and account share in targeted segments. Customer perspective should also include defined measures of the value propositions that the business will offer to customers in targeted market segments. The customer perspective allows business unit managers to formulate the customer and market-based strategy that will bring superior future financial yields.

## **Internal Business Process Perspective**

In this perspective, executives determine the important internal processes in which the business should excel. These processes make it possible for business unit to (i) deliver the value propositions which attract and retain customers in targeted market segments and (ii) satisfy shareholder anticipations of successful financial yields. The internal- business process measures are applied to the internal process with the utmost impact on customer contentment and realizing business financial objectives.

## Learning and Growth perspective

This aspect of BSC, learning and growth, identifies the infrastructure that the firm needs to develop to generate long-term growth and progress. Organizational learning and growth is derived from three major sources: people, systems and business procedures. The financial, customer and internal- business processes objectives on the BSC typically discloses large gaps between the prevailing capabilities of people, systems and procedures and what is necessary to attain breakthrough performance. To bridge the gaps, organizations should invest in deskilling workers, improving information technology and systems, and aligning organizational procedures and routines. The learning and growth aspect of BSC encompasses the objectives. Measures include outcome measures, employee satisfaction, retention, training and skills. Altogether, the BSC can translate visions and strategy to objectives and measures across a balanced set of perspectives.

## **Employee Appraisal**

Every company has to make effort towards developing top achievers. When there is no effective assessment, employee may not be as productive as they should be. Potocki and Brocato (1995) asserted that an organization's success in improving performance depends largely on the abilities and motivation of its workforce. Performance appraisal is a potent instrument used by any business owner who wants to get the best of every encounter with employees. Jacobs (1980) defines performance appraisal as a methodical effort to differentiate the more efficient workers from the less efficient workers and to differentiate among strength and weaknesses an individual has across many job elements.

Individual's performance behaviour is positively related to his/her dedication to job and attainment of organization's objectives and goals. Reinke (2003) states that "a rudimentary assumption is that workers offer different measure of support to the firm since individual achievement varies, and that supervisors are very much capable and ready to distinguish between employees". Furthermore, for development purposes one assumes that accurate and timely feedback can change behaviour (Tziner, 1992). Fletcher (2001) explains that performance evaluation is the mechanism by which organizations try to do assessment and develop staff, thereby enhancing performance and distributing rewards. Furthermore, Portolese (2011) explains that in the classes of performance appraisals, two main aspects to appraisal methods are; firstly, the criteria; these includes areas the staff are appraised on, which are linked to the employee's job description. Secondly, the grade, which is the sort of scale used to rank each criteria in a performance assessment. For examples, scale of 1-5, essay ratings or yes/no ratings tied to the rating and criteria is the weighting each item will be given. For instance, interaction with customer can be rated more than communication, subject to the job types. The types of criteria and rating methods includes; graphic rating scale, essay appraisal, checklist scale, work standard appraisal, ranking method and the implementation of management by objectives (Portolese (2011)

## **Employee Motivation**

Daft and Marcic (2004) define motivation as the force either within or external to an individual that awaken the zeal and determination to pursue a certain goal. Nichols (2006), describes employees as a fulcrum — they can have great impact on sales and profitability, both positive and negative. Nasibov (2015) asserts that high production is a long - term benefit of staff motivation. A motivated employee is valued and offers substantial value to the business in sustaining and reinforcing its organization and profit growth. Mullins (2005) states "when positive motivation concept and practice are employed, output, quality and services should increase since motivation enables individuals achieve goals, gain positive viewpoint, create the power for change, build self-esteem and capability, manage their advancement and help others". Hoy and Miskel (1987) define employee motivation is the complex force, push, needs, tension states or other mechanism that starts and maintains voluntary activity directed to the accomplishment of individual goals. Nasibov, (2015) explains that an individual's motivation is influenced by biological, intellectual, social and emotional factors. Motivation is multifaceted, and that motivation of individuals offers several benefits to the corporate entity as well as to the individuals. Every manager has to execute the function of motivating individuals alongside other managerial functions. It is an integral part of management process itself. Seebach (2013) notes that improving productivity, utilization and effectiveness of your people can drive down costs, speed delivery and achievement, increase capacity and improve customer/stakeholder service. Osabiya (2015) notes that unlike physical assets, people have their own individual needs which must be met and habits which must be managed in order to contribute to organizational growth and development.

In a corporate entity employees are the most valuable assets and a very important resource of a business. From planning to implementation of rules and strategies employees are the core ingredients. High level of motivation is invaluable to workers and low

motivation influences employees negatively. Mullins (2005) cited a major international study by proud loot consulting which revealed that, the main reason for productivity deficit was low work morale. This comprises lack of positive group spirit, poor motivation, and poor sense of belonging, individuals' emotion undervalued and inadequately rewarded. Allen and Helms (2002) noted that various reward exercise can complement various generic strategies and are considerably linked to upper levels of perceived business performance. Osabiya (2015) points out that motivation is expected to have a positive influence on quality performance; individuals characterized by a high level of motivation display a greater work and life satisfaction. Motivation results in high level of resourcefulness from employees and whenever monitoring is impossible, motivation is very vital for ensuring high quality performance.

Barlow (2011) notes that labour represents most maintenance expenses and it is naturally a target for efficiency improvement. Sara et al. (2004) states "employees want to earn reasonable salaries, as money represents the most vital incentive, when speaking of its influential value". Avenir (2017) points out that labour cost is one of the main operating expenses of a business. To maximize operating performance and overall profitability, every entrepreneur or manager needs to know how to measure his or her effectiveness in employing labour to generate revenue. Misunderstanding how revenue and labour costs impact on each other may cause hindrances in an organization. Wright (2007) states, "labour cost to revenue ratio tells how efficiently an organization is employing the workers". Avenir (2017) explains that labour force efficiency goes up as the labour to revenue ratio (LRR) decreases, which is why the lower the ratio, the better it is for a business. The trend of the ratio must be checked regularly in order to track the efficiency of labour in generating revenue each financial year.

Labour cost to revenue ratio =  $\underline{\text{Labour cost}}$  x 100 Revenue

## **Quality Service Delivery**

Stone (1995) observes that in the present day banking environment, banks profitability levels got reduced as a result greater competition and spread reductions. Banks once relied on products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines, but today, banks are driven by customers, who demand service quality. Berry!, (1988) points out that banks pursing optimization of profit do know now that high quality enables a bank to attract and keep customers and bad quality will cause customers to leave a bank. Bitner, (1990) describes service quality as the customer's overall impression of the relative inferiority/ superiority of an organization and its service offerings. Kotler (2000) asserts that delivering superior services has become one of the most important ways to gain superior profitability. Buzzell and Gale (1987) found out that service quality results in increased market share and repeated sales that ultimately leads to customer loyalty. Berry, (1988) explains that quality of service is vital in distinguishing rival firm in the retail sector and in banking. Lewis (1993) notes that service quality is one of the most effective means of establishing a competitive position and enhancing profitability.

Alvarado, Dockett, Romano and Ferguson (2007) assert that efficiency ratio are designed to measure the firm's ability to generate revenues and control costs. Burger and

#### PERFORMANCE MEASUREMENT AND PROFITABILITY OF BANKS IN NIGERIA

Moormann (2008) stress that in efficiency measurement, it is essential to consider several factors simultaneously in the analysis. Only this approach ensures the accurate determination of multi-dimensional character of performance within a business process. In process management, the factors, cost, quality, time and operational risks have to be balanced. These factors must not be analyzed separately from one another, but need to be considered collectively. Burrows (2009) argues that efficiency is not just about reducing cost; other business objectives, including service quality still have to be achieved to keep existing customers and revenue. Many organizations are too concerned with costs and are not aware that the real business value can be destroyed if approached purely as a cost cutting exercise Shawk (2008) defines operational efficiency as what happens when the right combination of people, process and technology are used together to increase output and value of any business operation, while reducing the cost of routine operations to a desired level. Bratton and Garrido, (2016) explain that cost to income ratio (CIR) is the ratio which measures operating expenses as a percentage of operating income, and that it is employed to gauge efficiency and productivity for banks. Lower ratios generally indicate higher efficiency but various factors can affect the ratio, including a bank's business model and size. In Global Economy.com (2017) Bank scope provided the average value for Nigeria's bank CIR from 1996 to 2014 as 58.78 percent.

Cost to income ratio =  $\frac{\text{Operating expenses}}{\text{Operating income}} \times 100$ 

## Handling of Customer Complaints

Customer complaint is "an expression of dissatisfaction on a consumer's behalf to a responsible party" (Landon, 1980). Kristensen et al. (1992); Zeitthami (1996); McColl-Kenedy and Scheider (2000) state "that it is well established that satisfied customers are key to long-term business success". Aker and Jocobbsons (1994); Bolton, (1998); Yeung et al., (2002) note that companies that have a more satisfied customer base also experience higher economic returns. Yi (1991); Anderson and Sulivan (1993), Boudling (1993) asserts that higher customer satisfaction leads to greater customer loyalty. Shulzhenko (2014) emphasizes the key to successfully dealing with complaints is in the right attitude towards them. In fact, customer complaints should be embraced and seen as solicited feedback which is always a valuable source of information about your business

Baran, Galka and Strur (2008) suggest that it behooves a company to recognize dissatisfied customers and try to reverse a bad situation. Albrecht and Zemke (1985); Rust, Subrarnanian and Wells (1992);Tax and Brown (1998) claim that previous studies have shown that when banks' customer grievances are satisfactorily addressed, a stronger relationship is formed and this leads to customer retention. Cardozo (1975) stresses that customer satisfaction can boost repeat purchase and cross purchase. Conlon and Murray (1996) state that customers who complain and receive a proper response to firm's failure services are more likely to stay. Carnegie (2014) explains that some people who complain will be difficult to please, but if your company can develop a consistent procedure employees can use for resolving complaints, you are one important step closer to assuring that you deal with the emotional and practical aspects of customer service.

Assessment for customer complaint resolution (CRR) is the percentage of customer complaints successfully resolved. This measures whether customer complaints are resolved

to the satisfaction of customers' needs. Complaint handling efficiency goes up as the complaint resolved ratio increases, which is why the higher the ratio, the better it is for a business. This is computed as given by the formula below:

## CRR = Customer complaint resolved x 100Total number of complaints received

## **Level of Liquidity**

Ibe (2013) describes that bank liquidity as the ability of bank to immediately meet cash, cheques, other withdrawal obligation and legitimate new loan while keeping to prevailing reserve requirements. Agbada and Osuji (2013) note that strategic management of banks seeks to keep the bank solvent and liquid to earn good profits and remain sound. Bessis (1998) emphasizes that when evaluating a bank's performance, due consideration needs to be given to not only its profitability but also its financial condition. Thus, the management of profitability and risks are closely related, because risk taking is very vital for future profitability. Ghebregiorgis and Atewebrhan (2016) affirm that each bank makes trade-offs between the profitability level it is striving to achieve and the risks it is willing to take. Therefore, profitability measure, taken alone without a proper assessment to a bank's risk, can be misleading. Spaudling (1982) explains that the major assets of a bank are its loans to individuals, businesses and other organizations and the securities that it holds, while its major liabilities are its deposits and the money that it borrows, either from other banks or by selling commercial paper in the money market. Fuhrmann (2007) stresses that liquidity mismatch between depositors and borrowers, a significant problem throughout history, is a vital reason why banks are highly regulated and under continuous scrutiny by regulators.

Cash based economy is not without cost to banks, government and individuals. High cash usage results in high cost of processing borne by every entity across the value chain. For instance, the cost of printing new notes is said to cost a huge amount yearly. Generally, cost of cash in Nigeria's financial system is great and increasing (Central Bank of Nigeria, 2011; Nweke, 2012). Cashless policy is a policy established in the year 2012 by the Central Bank of Nigeria to curb excesses in the handling of cash in Nigeria. It prescribed a cash handling charges on daily withdrawal above Five Hundred Thousand Naira (N500, 000.00) for individuals and Three Million Naira for Corporate Bodies (N3, 000,000.00) (Emefiele, 2015). Taiwo, Oluwafemi, Evawere and Agwu (2016) state in their empirical findings that "banks activities and their income structure are continuously being influenced positively by the introduction of cashless policy.

## Financial Performance Indicator for Measuring the Profitability of Bank

Lesakova (2007) states that "profitability ratios reveal the company's ability to earn sufficient profit and return on investment". The ratios indicate good financial condition and how successfully the organization manages its assets.

**Return on Asset (ROA) Ratio** 

Helfert (2001) states that certain authors recommend calculating ROA as the ratio of the Net profit (NP) of an organization to the average total assets of the last two accounting years.

$$ROA = \underbrace{NP}_{ATA} x 100$$

he average total assets (ATA) is calculated by the following formula

$$ATA = \frac{TA_1 + TA_0}{2}$$
(2)

Where TA is total assets at the end of the current financial year (for which ROA is calculated) and TA represents value of the assets at the end of the previous year.

## **Return on Equity (ROE) Ratio**

Helfert (2001); Brealey and Myers (2003); Ross and Jaffe (2002) suggest calculating ROE by dividing the net result by the average equity of an organization:

$$ROE = \frac{NP}{AE} \times 100$$
(1)

Where AE is the simple arithmetic average of equity of the company for the last two

financial years, respectively.

$$AE = \frac{\underline{E}_1 + \underline{E}_2}{2}$$
(2)

Regardless of the approach used to calculate equity, we have to state that this indicator is a relevant measure of management efficiency in dealing with shareholders capital.

## **Financial Performance Indicators for Measuring Efficiency of Bank**

Bon and Veen (2007) describe efficiency as a measure of whether the right amount of resources has been used to deliver a process, service or activity. An efficient process achieved its objectives with the smallest; amount of time, money, number of people or other resources. Efficiency measurement is one aspect of firms performance. Mester (2003) states efficiency is measured in relation to an objective. It can be measured in relation to maximization of output and of profits, or minimization of costs.

Wright (2007) points out that investors, owners and managers often review and assess internal numbers to determine how well an organization is performing. Comparing one set of numbers to another yields ratios that provide valuable insight.

## Labour Cost to Revenue Ratio (LRR)

Avenir (2017) argued that LCR is the financial analysis tool that compares the amount of money an organization spends on its workers to the quantity of money it makes in net sales. The formula is:

$$LRR = \underbrace{\begin{array}{c} Labour \ cost} \\ Revenue \end{array} x 100$$

#### **Revenue Per Employee Ratio (RER)**

Wright (2007) explains that businesses calculate RER by dividing total revenue by total number of employees. Through employing RER, an organization can ascertain efficiency and use the outcome for modifications to operations. High RER shows that an organization has found other methods to obtain additional sales from each staff. Increased efficiency means lower relative labour costs, increased margins and bigger profits. The formula is thus stated:

$$RER = \underbrace{Total revenue}_{Total number of employees} x 100$$

#### Cost to Income Ratio (CIR)

Bratton and Garrido (2016) asserts that CIR which measures operating expenses as a percentage of operating income is used to gauge efficiency and productivity for banks.

CIR = Operating expenses Operating income x 100

## **Complaint Resolved Ratio (CRR)**

BPIR.com (2002) provides assessment for CRR as the percentage of customer complaints successfully resolved.

 $Customer complaint resolved CRR = \underbrace{x 100}_{Total number of complaints received} x$ 

## **Financial Performance Indicators for Measuring Liquidity**

Lee (2006) stresses that liquidity ratios measure the ability of an organization to meet its mature financial obligations and recurring operating expenses.

## Loan to Deposit Ratio (LDR)

Dufera (2010) asserts that LDR is the most essential ratio to measure the liquidity condition of bank. Emefiele (2015) notes that the measure is based on the fact that loans and advances are the illiquid of a banks earning assets, such that a high LDR shows low liquidity position and conversely. LDR is calculated as follows:

Hempel et al (1994) notes that high liquidity ratio indicates a less risky and less profitable bank.

## Cash Deposit Ratio (CDR)

Dufera (2010) states that cash in the bank vault is the most liquid asset of a bank. Therefore, a higher CDR depicts a relatively more liquid bank than that which has low cost to deposit ratio".

Depositors' confidence in bank is greater at a high CDR. CDR is computed as:

CDR = Cash x 100Deposit

## **Demerits of Financial Ratio**

Peavier (2017) points out that financial analysis is one of the most popular used methods of analysis for companies', mainly small firms. Ratio analysis presents information on trends within companies; known as trend or time- series analysis, and trends within the industry, known as industry or cross- sectional analysis. There are other techniques used to assess the financial condition of business apart from ratio analysis, such as common size financial statement analysis. These techniques make up for the demerits of ratio analysis below:

- i. Benchmark to industry leaders' ratios, not industry averages: Benchmark your firms financial ratios to those of superior organizations in your industry and you will shoot for a higher goal.
- ii. Companies' balance sheet is distorted by inflation: Distortions may exist when comparing ratios computed from balance sheets affected by inflation.
- iii. Ratio analysis just presents figures, not causation factors: Ratios are useless when not compared with trend data or industry data.
- iv. Diverse divisions may be compared with various industry averages: Big firms may comprise various divisions manufacturing various products or offering diverse services. For ratio analysis to be useful, various industry averages may be employed for each division.
- v. Companies may alter their financial Statements: If financial statements are not good enough and an organization wants better figures in their annual report, the firm may employ window dressing to make alterations in the financial statements.

## **Goal Setting Theory**

In 1960, Locke propounded the Goal setting theory of motivation. Locke (1960) explained that Goal setting theory is vitally connected to performance of task and that specific challenging goals with required feedback provide contribution towards higher and better task performance. Goals affect behavior, direct actions and challenging goals mobilize energy, leading to persistent increase in effort and motivation of individuals in building

strategies in order to perform at the required goal levels. Lastly, success in attaining the goal may lead to satisfaction and further motivation, while failure to attain the goal may lead to frustration and lower motivation. Hoy and Miskel (2005) emphasize that the intention to achieve a goal is the main motivating force of work behaviour.

Locke and Latham (1990) put forth four conditions that must be met for goal setting to lead to enhanced performance. Firstly, goals must be specific; secondly, goals must be challenging; thirdly, goals must be attainable; finally, individuals must be committed to the goals. When goals are accepted, it indicates that individuals have the intent of exhibiting the behavior required for its implementation. Muchnsky (1983) recommends that for goals to have positive influence on performance, two conditions must be met. Firstly, the individual must know the goal and what must be achieved. Secondly, the individual must accept the goal as something he wants to work for.

## Motivation-Hygiene Theory (Two-Factor or Dual-Factor Theory)

Herzberg (1959) asserts that some factors in the workplace cause job satisfaction, while a different group of factors cause dissatisfaction. Thus job satisfaction and job dissatisfaction are not on a continuum with one increasing as the other is diminishing, but are independent phenomena. This theory suggests that to improve job attitudes and productivity, administrators must pay attention to both sets of characteristics and not have the assumption that an increase in satisfaction leads to decrease in dissatisfaction.

Herzberg (1959) points out that individual are not content with the satisfaction of lower-order needs at work; for example the needs associated with minimum salary levels and good work conditions. Rather, individuals seek to gratify higher-level psychological needs which include achievements, recognition, responsibility, advancement and the nature of work.

Hackman and Oldham (1976) explain that two-factor theory distinguishes between motivators and hygiene factors. Motivators give positive satisfaction. They arise from intrinsic conditions of the job itself, such as recognition for one's achievement or personal growth.

Hygiene factors do not give positive satisfaction or lead to higher motivation, though dissatisfaction results from their absence. Hygiene factors are for maintenance. These are extrinsic to work itself and include aspects such as company policies, supervisory practices or wages/salary.

The relevance of these theories to the study is that they direct focus to important factors which are vital to business performance. They also provide meaningful contributions that will aid managers put in place conditions and processes that will enable workers perform optimally.

### **Empirical Evidence**

Gunasekaranb (2004) noted that in recent years, organizational performance measurement structure and factors have received considerable focus from researchers and practitioners. Taticchi *et al.* (2010) pointed out that measurement has been known as a vital element to enhance business performance. Neely *et al.*, (1995) noted that for the past three decades, several literatures on measurement of performance and management exist. Researchers and practitioners initially focused on business performance, definition for measurement, measures and measurement system. Kaplan and Norton, 1995 noted that

later studies were about developing comprehensive frameworks and models for measurement.

Franco-Santos, Lucianetti and Boume (2012) carried out a study on contemporary performance measurement systems. The features of seventy-six selected studies were extracted to organize the findings and build conceptual framework for the study. This framework categorized the contemporary performance measurement system consequences into three groups: consequences for people's behavior, consequences for organizational capabilities and consequences for performance. Mixed methods of survey, interviews experiments and case/field study were used in the study.

Related to CPM system influence on people's behavior. Malina and Selto (2001) contend that the CPM stimulates motivation when there are two conditions. Firstly, the CPM system must be an effective management control device, including performance measures and targets that are controllable, challenging but attainable and linked to meaningful rewards. Secondly, the CPM system must be supported by an effective communication mechanism which encourages feedback, dialogue and participation. In summary, evidence gathered indicated that it is as much the process of building and using the CPM system, as it is the resultant performance measures that bring about motivational benefits. To promote motivation the CPM system should be developed and used in a way that improves employees' participation, psychological empowerment and goal commitment (through increased perceptions of self-- efficacy and goal attractiveness).

Bisbe and Otley (2004) found that iterative use of CPM systems favour innovation only in organizations with low levels of innovation, whilst it militates against innovation in organizations with high levels of innovation. On organizational learning, the studies of Johnson et al., (2002), Godener and Soderquist (2004), Ahn (2001) and Chenhall (2005) suggest that when the focus of CPM systems is on action and improvement rather than on reporting and control, these systems are effective mechanisms for facilitating organizational learning that supports growth and development at all levels. Based on the insights from the above studies and more, it can be argued that the appropriate balance between diagnostic and interactive uses of CPM systems can encourage the utilization and development of strategic firm capabilities such as organizational learning, entrepreneurship and market orientation. The impact of CPM on innovation remains unclear, necessitating further research.

CPM has been found to have impact on performance at all levels of the firm. The growing consensus in the literature seems to be that CPM systems do enhance organizational performance. Evidence indicates that it is the way these systems are designed, developed and more importantly used that results in performance improvements (Braam and Nijssen 2004; Griffith and Neely, 2009; Ittner and Larcker, 1997; Henri, 2006)

In the study, titled "towards a definition of business performance system", Franco-Santos, Kennerly, Micherli, Mason, Marr, Gray, Neely and Martinez (2007) reviewed the performance measurement literature with a systematic method with the purpose of finding out various definition of performance measurement system. In analyzing the key features of business performance measurement (BPM) system, seventeen definitions found in the literature were content analyzed. This finding indicated that the majority of researchers in this field do not explicitly define what they are referring to when they use the phrase "business performance system". Hult, Ketchen, Griffith, Chabowski, Hamman, Dykes, Pollitte

and Cavusgil (2008) in the study titled "An assessment of the measurement of performance in international business research" assessed the measurement of performance in ninety six articles published in some journals between 1995 and 2005. The finding showed that most studies do not measure performance in a way that will capture the multifaceted nature of the construct. They however, offer suggestion for improving future practice.

## METHODOLOGY

This research study examines the impact of performance measurement on profitability of banks in Nigeria. The study employed primary and secondary data from the three selected banks; Guaranty trust bank, Sterling bank plc and United Bank of Africa (UBA). The sample for the primary data was obtained using stratified sampling technique. Financial ratios were computed from the data obtained from the financial statements of banks. These ratios were used as financial proxies for employee motivation, quality service delivery, handling of customer complaint, level of liquidity and profitability as determinants of profitability. The study involved the use of descriptive statistics, and regression techniques. These statistical tools were used to make meaning out of the primary and secondary data generated, test of hypotheses and observe the extent of impact of the independent variables on profitability.

## FINDINGS

Employee motivation shows a positive relationship with profitability in both primary and secondary data analysis (B = .395, P <0.01) and (B= 0.83, P <0.05) respectively. This result indicates that employees were not utilized efficiently and that any increase in profitability will not be as a result of employee efficiency but the impact of other factors such as: increase in funding, payment on bad debts from previous years. Avenir (2017) explained that labour force efficiency goes up as the labour revenue ratio decreases, which is why the lower the ratio, the better it is for a business.

It was found from the results that quality of service delivery had the greatest impact on profitability and (B = 0.83, P < 0.05) result. The regression analysis on the secondary data showed that the quality of service delivery had an inverse relationship with profitability. Garrido (2016) explained that lower ratios generally indicate high efficiency but a number of factors can affect the ratio, including the bank's business model and size. The correlation result also shows negative relationship between quality service delivery and profitability.

In the analysis of the secondary data, handling of customer complaints showed positive relationship with profitability and a level of significance p.586, which shows no statistical significance at (p =.586 > 0.05) in regression analysis. This result is assessed as having a moderately significant relationship with profitability. Data from the financial statements of banks were non-existent from the year 2009 to three-quarter of 2011. This reflects on the results. In spite of the effect of the non-existing figures, the regression analysis on the secondary data showed a result of positive relationship between handling of customer complaints and profitability. Also, the data from 2011-2015 show high figures for financial ratios, which is an indication that the number of complaints successfully resolved over this period were high. Thus, this would have had statistical significance on profitability all things being equal.

The analyses on the primary and secondary data show that level of liquidity has positive and (B = 0.54, P < 0.01), and (B = .001, P < 0.05) relationship with profitability at no level of statistical significance and (.140 > 0.05) & (.998 > 0.05) respectively. The primary

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data is contradictory to the rule the higher the liquidity position of a bank, the less risky is the bank, which translates into low profitability (Emefiele, 2015), thus this shows a negative relationship. Ross, Westerfield and Jaffe (2005) explained that holding high level of liquidity with low returns in banks is one of the factors that affect bank profitability adversely. Kamau, (2009) noted that when banks' hold high liquidity they do so at the opportunity cost of some investment, which could generate high returns. The secondary data showed that level of liquidity has a weak and lowest positive relationship with profitability. This result confirms the explanation; banks with low loan to deposit are considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high loan to deposit (Dufera, 2010). Thus, this shows a positive relationship between liquidity(loan to deposit ratio) and profitability.

## CONC1USION AND RECOMMENDATIONS

The primary data result on employee motivation showed positive and significant relationship with profitability of banks, while the secondary data indicated positive but no significant relationship with profitability. The trend of the labour cost to revenue ratio must be checked regularly in order to track the efficiency of labour in generating revenue each financial year.

The results obtained from the regression analyses showed low positive effect and no significance on profitability. Liquidity management should be enhanced so as to maintain the level of liquidity that will help boost profitability. Strategic bank management which aims at keeping the bank solvent, liquid and sound is required. The result obtained from the secondary data may be as a result of banks not creating sufficient interest bearing assets and not earning enough to remain in business.

It is rather difficult to operate a system that is perfect in the world of events. Therefore, recommendations of this study will be based on the aspects of performance measurement that needs to be emphasized and/or difficult to assess or manage. Having reviewed literatures and drawn all analysis, recommendations were put forward. These will not only be of relevance to banks but also benefit other organizations with similar problems. The importance of performance measurement in the management of an organization cannot be undermined. The recommendations are presented below:

- i. Quality service delivery has the greatest impact on profitability of banks. Hence quality service delivery should be enhanced for the successful operation of banks through considering several factors simultaneously; efficiency in utilizing employees, maintenance of high standards, process monitoring and minimization of wait time.
- ii. The performance measurement system must be tied to the strategic visions, goals and objectives of the firm. Also, organizations should employ key performance indicators that are meaningful and echo organizations objectives, in order to achieve business success.
- iii. The result on the secondary data showed that employees were not utilized efficiently, for this reason; it recommend that employees should be well equipped to carry out the operational activities of the organization, performance measure should be discussed with employees and methods of evaluating employee performance should be clearly defined.

- iv. Banks should employ financial and non-financial key performance indicator as a balanced set of measures. And to reflect the causal link inherent in the model of a firm, performance measures must always be reported collectively not singly.
- v. Firms should not simply copy measures used by others, the choice of measures must be linked to factors such as corporate, value drivers, organizational objectives and competitive environment of the organization. Gap analysis should be done regularly to assess performance in organizations as an aid to align current measures with company's strategies and value drivers.
- vi. When business environment is changing, a performance measurement system should provide for the continual re- assessment of strategies and planning targets, so that targets can be altered as necessary to meet the changing circumstances. Performance measurement should be relevant and dynamic.
- vii. Performance measures that are chosen should measure; effectiveness of processes, products and services in meeting customer need and efficiency in the use of resources and banks should always quantify key performance indicators used to measure their performance in order to determine whether they are successful or not.

## **Managerial and Academic Implications**

The results of the study present several implications to practitioners and academia. The study provides in-depth knowledge and understanding of procedures required to establish effective performance measures that are aligned to the strategies, goals and objectives of an organization. Guiding principles for effective performance measurement framework were identified

- i. The study has established an enhanced model of performance measurement through employee's motivation, quality service delivery, handling customer's complaints, level of liquidity and their effect on the profitability of banks.
- ii. This research work conducted on performance measurement on profitability of banks presents result which different organizations, departments and employees can compare their performance with, in order to establish the extent of their competitiveness and profitability.
- iii. In the research, the use of combination of qualitative and quantitative techniques provides insights and understanding of the possibility. The study presented this approach that will help managers and researchers obtain more meaningful results as both qualitative and quantitative measures complement each other.
- iv. The different performance perspectives and variables of the model were further defined by using financial ratios as proxies for the variables. This further refines the perspectives of the balanced scorecard model after which the conceptual model for this study was tailored.
- v. The study provides a guide that can be tailored to fulfill unique measurement needs of various companies. This guide is suggestive of an aid which provides organizations with operational performance measures aligned to strategic goals and objectives.

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## TOTAL QUALITY MANAGEMENT AND ORGANIZATIONAL PERFORMANCE IN NIGERIAN PETROLEUM DEVELOPMENT COMPANY

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## ABSTRACT

Total quality management can considered as a comprehensive integration between several models, procedures, individuals and communication processes to cover all customer demands. It is a management strategy that enables an organization to continuously meet customer requirements by consistently achieving planned and continuous improvement in the quality of all activities, processes and results at the lowest overall cost. This study examined the relationship between total quality management practices and organisational performance. The specific objectives of the study were to examine the impact of top management, strategic planning, process management, customer focus, employee relation on organisational performance. The study adopted a survey research instrument through the administration of questionnaires to two hundred and fifty-five (255) employees of the Nigerian Petroleum Development Company Limited (NPDC), Benin City. Data for the study were analyzed using descriptive statistics, Pearson correlation and multiple regression. The results of the study showed that different TQM practices have different impact on organizational performance. The multiple regressions results revealed that top management, and employee relations have significant relationships with organisational performance, whereas strategic planning, customer focus, and process management have insignificant relationships with organisational performance. The study recommends that the commitment of top management as component of total quality management practices would significantly enhanced organisational performance.

# Keywords: Organisational Performance, Total Quality Management, Nigerian Petroleum Development Corporation

## INTRODUCTION

Organisations all over the world have been trying to cope with a rapidly changing business environment, globalization, intense worldwide competition, and ever-changing customer demands such that management needs to be more and more astute in finding ways to sustain or gain competitive advantage (Ngambi&Nkemkiafu, 2015). With the rapid
global economic growth, changes in technologies, market competitions, and an ever changing business environment, organisations have to struggle to maintain profitability, growth and improve performance. To withstand new global challenges, most business organisations have adopted new philosophies such as concurrent engineering, Lean Production, Just-In-Time (JIT) strategies, Total Quality Management (TQM), Business Process Re-engineering (BPR) and others, to become more effective in the way they conduct business (Ngambi&Nkemkiafu, 2015).

Imran, Abdul-Hamid and Aziz (2017), emphasized that market orientation serves as a platform for creating a clear understanding of total quality management and organisational performance relationship. Therefore, the main driver behind these philosophies is the optimization of the organisation's performance both internally and externally within its respective target market (Lee, 2012). Total quality management (TQM) is a firm-wide management philosophy of continuously improving the quality of the products/services/processes by focusing on the customers' needs and expectations to enhance customer satisfaction and firm performance (Sadikoglu & Olcay, 2014). Quality advocates have identified several critical principles for successful TQM practices which among others include: top management commitment, customer focus, supplier relationship, benchmarking, quality-oriented training, employee focus, zero-defects, process improvement and quality measurement, among others (Gharakhani, Rahmati, Farrokhi & Farahmandian, 2013).

Of course, this is achieved through cooperation between organisational members.

Horsfall, Ukoha and Alagah (2018), argued that the persistent wave of technological change and environmental turbulence have pushed many firms into becoming bystanders of the future and has made their structures, processes and skills become progressively less attuned to the ever-changing realities of the demands and expectations of present day customers. Therefore, organizations must adopt a quality management practices focused on achieving and sustaining a high quality outputs with management practices as the inputs and quality performance as the outputs (Flynn, Schroeder &Sakakibara, 1994). On this premise, the pioneers in TQM, such as Deming, Juran, Cosby and Feigenbaum, highlighted the importance of the quality philosophy as an essential competitive weapon for the transformation of an organisation (Jaafreh& Al-abedallat, 2013).

Although there are several researches that directly handled total quality management practices, these practices are still considered vague and unclear (Dean & Bowen, 1994). This could be explained due to the fact that total quality management has different definitions (Al-Qahtani, Alshehri& Aziz, 2015).Previous studies have reported mixed and ambiguous results of the relationship between TQM practices and organizational performances. For instance, Jaafreh and Al-abedallat (2013) and Zu (2009) have claimed that a proper implementation of TQM practice in any organisation, in any sectors of the economy (manufacturing or service) can generates improved products and services, more satisfied customers and employees, reduced costs, improved financial performance, enhanced competitive, and increased performance. Likewise, Horsfall, Ukoha and Alagah (2018), Abeykoon & de Alwis (2015) and Kathaari (2014) have identified relationships among total quality management practices and examine the effects of these practices on performance, but the findings are inconsistent and conflicting. Based on the foregoing, this study sought to bridge the gap by examining the significant relationship between total quality

management practices and organisational performance with regards to Nigerian Petroleum Development Commission located in Sapele road in Oredo Local Government Area of Edo state.

# **Research Objectives**

Specifically, this research paper came to find out the following key objectives which are to:

- i. Examine the relationship between top management as a component of total quality management and organizational performance;
- ii. Determine the relationship between strategic planning as a component of total quality management and organizational performance;
- iii. Ascertain the relationship between customer focus as a component of total quality management and organizational performance;
- iv. Investigate the relationship between process management as a component of total quality management and organizational performance; and
- v. Examine the relationship between employee relation as a component of total quality management and organizational performance.

# LITERATURE REVIEW

# Meaning and Measurement of Organisational Performance

Organizational performance means the actual output or results of an organization as measured against its intended outputs (goals and objectives). It is a vital part of monitoring the orgaisation's progress. It involves the recurring activities to establish organisational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. According to Nwadukwe and Court (2012), organisational performance is the ability of the organisation to effectively manage the available resources within the firm to predetermined goals and objectives. Organisational performance is the level of organisational achievement with regard to organisation regulations, expectation and requirement in meeting its goals and objectives (Folorunso, Adewale&Abodunde, 2014). Amadi and Ndu (2018), add that organisational performance is usually seen as a medium of assessing, observing, monitoring, reporting and evaluating organisational progress. In the view of Armstrong (2017), organisationalperformance is the extent of the effective and efficient utilization of resources to achieve objectives for which managers are responsible. Therefore, it can be said that organisational performance is concerned with work related activities, especially those activities expected of an employee and how well such were executed. Organisational performance can be adopted as a tool for influencing detailed actions taken by the firm and the extent to which the firm intends to achieve its stated objectives and goals as defined in its corporate mission and strategies.

# **Concept of Total Quality Management**

Total quality management (TQM) is a firm-wide management philosophy of continuously improving the quality of the products/services/processes by focusing on the customers' needs and expectations to enhance customer satisfaction and firm performance (Sadikoglu, et al, 2014). Total quality management (TQM) is a systematic quality improvement approach for firm-wide management for the purpose of improving performance in terms of quality, productivity, customer satisfaction, and profitability (Gharakhani, Rahmati, Farrokhi, & Farahmandian, 2013). Al Ali (2007) sees TQM as the interaction of input including individuals, methods, policies and instruments to achieve high

quality output. Al- Damen (2017) defines TQM as a culture adopted by the organisation and deployed to all employees in the organisation, in order to achieve the customer satisfaction. It is a management philosophy with a comprehensive set of tools and approaches to the purposes of implementation. This is the highest level of quality management. It is concerned with the management of quality principle in all the facets of a business including customers and suppliers (Adediran & Adediran, 2009). The concept allows the combination of quality and management tools, aimed at increasing business activities and reducing losses due to wasteful practices (Kosgei, 2014). As a generic management tool, total quality management is infinitely variable and adaptable. It is the foundation for activities which includes commitment by senior management and all employees, meeting customer's requirements, reducing development circle times, just in time/demand flow manufacturing, improvement teams, reducing products and services cost, systems to facilitate improvement, line management ownership, employee involvement and empowerment, recognition and celebration, challenging quantified goals and bench marking, focus on processes/improvement plan and specific incorporation in strategic planning (Wani&Mehraj, 2014).

The introduction of total quality management (TQM) has played an important role in the development of contemporary management (Hoang, Igel & Laosirihongthong, 2010). Subsequently, quality management has been recognized widely in several international standards such as in the ISO 9000 and the idea of quality management was largely accepted by these standards (Al-Qahtani, Alshehri, & Aziz, 2015). Total quality management also engages all organisational staff members in the process of covering customers' expectation through utilizing problem solving methods to enhance the quality of all organisational products and services (Al-Qahtani, et al, 2015). The main focus of total quality management philosophy is to achieve a comprehensive integration among organisational staff and their functions in order to gain better enhancement, progress and preservation of products and services quality to achieve customer satisfaction (Talib, 2013). This managerial philosophy is directly focused on improving business quality and satisfaction of customers through enhancing the employee's involvement in decision making processes by utilizing teams of quality improvements and quality circle strategies (Yusuf et al., 2007). Many literature ((Talib et al., 2012) provide various concepts on TQM; however, all of them share similar basic elements. One example is that all TQM considered customer as the key focus in this managerial strategy. Therefore, we define total quality management as a managerial strategy that is focused on enhancing organisational performance and efficiency through an enhancement of the quality of products or services rendered by the organisations.

The interest in total quality management practices was largely enhanced in the last two decades and it is considered as an essential field to study for many scholars (Arumugam, Oai, & Fang, 2008). Gharakhani et al. (2013) indicated that total quality management was largely accepted at different services sectors as a managerial strategy that essentially aims to enhance performance of organisations. Moreover, total quality management is considered as a comprehensive integration between several models, procedures, individuals and communication processes to cover all customer demands (Van Ho, 2011). Talib and Rahman (2010) proposed a total quality management model which is recognized as the component of TQM model. TQM practices include commitment of topmanagement, focus on customers, training and education, continuous improvement, supplier management, involvement and encouragement of employees, benchmarking, and quality information and performance. The outputs are the enhanced productivity and quality, the achievement of high level customer satisfaction, the improved customer loyalty and on-time delivery. Generally, all TQM models indicated that each managerial action consists of planning, implementing and evaluating processes. This study however focuses on TQM practices of top management, strategic planning, customer focus, process management, and employee relations.

# **Top Management**

Top management is responsible for the establishment of a quality service standard, good internal control process, quality policy, creating a time frame for achieving quality goal, as well as efficiently distributing the resources needed to achieve the quality goal (Tanninena, Puumalainen & Sandstrom, 2010). Senior management must acts a driver of TQM implementation, establishing values, goals, and systems to satisfy customers' needs and expectations and improve organisational performance (Ahire et al., 1996). In order to achieve their goals and objectives, people need to learn how to work together through identifying and understanding the importance of organisational culture and policies especially those at the helm of affair of corporate organisations (Cascio, 2006). Ojo (2009) claims that the management of corporate organisations need to explain and imbibe its culture in managerial employees to enable them to be familiarized with the organisational system. The commitment approach of top management, involvement, participation, and long-term orientation are considered to be the significant means of increasing human resource productivity and positive outcomes (Arthur, 1999). Previous studies have found that leadership improves operational performance (Ahire, et al., 1998). Based on the literature reviewed we propose the following hypothesis:

 $H_{01}$ : There is no significant relationship between top management as a component of total quality management and organisation performance.

# **Strategic Planning**

Organisations today face a continuous barrage of requests to improve quality (Al-Damen, 2017). Planning involves determining what the main objectives of the organisation and the allocation of resources towards the achievement of the set objectives (Ferreira & Proença, 2015). That is, planning is the systematic process of establishing a need and then working out the best way to meet the need, within a strategic framework that enables the individual to identify priorities and determines the operational principles of the organisation. Strategic planning is a process that quality departments, quality managers and quality professionals undertake in their organisations to identify the "right" quality initiatives to best manage quality today and on into the future. It includes the following criteria: external and internal environmental analysis, development of quality mission, development of quality policy, development of quality strategic objectives, development of guality strategy (Al-Damen, 2017).

Previous studies have found that strategic quality planning is positively associated with operational performance, inventory management performance (Phan, Abdallah, & Matsui, 2011)..Therefore, our second hypothesis is stated as:

 $H_{02}$ : There is no significant relationship between strategic planning as a component of total quality management and organisation performance.

## **Customer Focus**

Organisations depend on their customers and therefore should understand current and future customer needs, should meet customer requirements and strive to exceed customer expectations (Saleh& Mohammed, 2013). This is achieved through continuous research and understanding the needs and expectations of the customer in terms of products, services and delivery date, price and reliability. Also, the established goals of the organisation must be linked with the needs and expectations of the customers, as well as ensuring a balance between the needs and expectations of customers and other stakeholders (owners, employees, suppliers and the community). Customer focus also includes informing employees at all levels of this needs and expectations of customers, measuring customer satisfaction and acting according to the results, as well as customer relationship management to achieve the common interest (Al-Damen, 2017). Customer focus is a component of total quality management practice. Dale, Boaden, and Lascelles (1994) add that customer focus is a philosophy that involves embracing all activities through which the needs and expectations of the customer and the community, and the objectives of the organisation can be satisfied in a most efficient and cost effective way while maximizing the potentials of all employees in a continuing drive for improvement. Previous studies have found that customer focus positively affects operational performance (Ahire, et al., 1998). on the basis of the literature therefore, our third hypothesis is stated below as:

 $H_{O3}$ : There is no significant relationship between customer focus as a component of total quality management and organisation performance.

# **Process Management**

Process management is seen as a desired outcome achieved more effectively and efficiently when resources and activities are managed as process-related (Al-Damen, 2017). Horsfall, Ukoha, and Alagah (2018) see process management as a procedure or set of procedures intended to ensure that a product or service under development (before work is complete, as opposed to afterwards) meets specified requirements. The focus should be on how best to design, manage and improve processes in order to fully satisfy, and generate increasing value for customers and other stakeholders (Al-Damen, 2017). Previous studies have found that process management improves operational performance (Phan, Abdallah, & Matsui, 2011). Therefore, our forth hypothesis is stated as:

 $H_{O4}$ : There is no significant relationship between process management as a component of total quality management and organisational performance.

## **Employee Relation**

According to Cambra-Fierro ,Melero and Sese (2014) employee relation focusing on customer satisfaction is the essence of improving quality and imputing motivational factors have a way of enhancing customer satisfaction. One major factor in employee relations is training. With effective training, employees know the industry and the structure of the organization. In addition, effective training will improve employees' loyalty to the organisation, motivation, and work performance. If employees are trained on producing reliable and high quality products and/or services, their full participation in the production stage would be more fruitful. Thus, customer satisfaction will increase and customer complaints will reduce. Some studies report that employee relations is positively related to operational performance (Sadikoglu, 2004).Subsequently, we propose the hypothesis that:

 $H_{O5}$ : There is no significant relationship between employee relation as a component of total quality management and organisation performance.

# **REVIEW OF RELATED THEORIES**

A few of the theories that relate to total quality management practices and organisational performance will be discussed below:

# **Deming Theory of Total Quality Management**

The Deming theory of total quality management is based on the concept of customer and the satisfaction the customer derives from consuming quality product and receiving quality services (Deming, 1986). Deming in his theory, he encourages American managers to produce quality product and rendering quality in order to satisfy the customer. More so, quality can be assessed by looking at performance, reliability, conformity to standards, durability, service ability, aesthetics and complying with customer requirements. According to the theory, to achieve customer satisfaction, the quality process must be improved upon by organisation in the quest of meeting the customer demands and continuous process improvement management in producing quality goods and services in customer-focused organisations (Deming, 1986). However, Edward Deming contribution has been reviewed and criticised by recent studies. One of such criticisms is the work by Hunter, (2012.) Hunter disagreed with Deming on his views of the elimination of evaluation of performance, merit rating or annual appraisal scheme.

Hunter (2012) opines, performance appraisal is a "who-based" approach to problem solving. Luce, (2015) also disagreed with Deming on the elimination of appraisal. To Luce, (2015), appraisals are not only used as a veritable compensation tool but they are also intended to collectively drive the organisation to his goal and unto financial success as they only move in one direction upward. Contrary to the views of Luce, Brent, (2016) bought into Deming's views of appraisal elimination by his proclamation that Deming's advice is right on since his views were based on decades of experience and convictions. Again, the idea that the system the people work and their interaction with people may account for 90-95% of performance by Deming was also criticised by Stickle, (2012) as he claimed that there is no evidence to show that this is true in practice either in multiple industries and businesses. He argued that 90 or 95% of performance means nothing without data attached. Leveraging on this line of logic, Hunter, (2012), affirmed that Deming's claims were based on decades of experience rather than on a set of data instead. Furthermore, the idea that management should focus on system improvement rather than searching for what people did wrong by Deming's theory was also criticized by Dowd (2012) when he argued that individual impact has a relative percentage contribution to output and that the value or amount of such is not zero. He argued that individual contribution may vary from situation to situation but cannot be separated from the system contributions.

## Juran Theory of Total Quality Management

Juran theory of total quality management is based on the practices of quality planning, quality control, and quality improvement carried out by strategic managers (Juran, 1988). Juran was of the opinion that quality product or service will be achieved by organisations when the organisation recognizes the presence of top management commitment, quality planning, training and development of employees. Juran (1989), quality is simply the ability to meet the desire need or fitness for use. Therefore, managers must set out quality standards that assess the cost and effectiveness of the quality improvement program as a

result of implementing the practice of total quality management in the banking industry. Juran ten steps to quality improvement are to build awareness of opportunities and to improve on them, set goals, organize to reach goals, provide training, carry out projects to solve problems, report progress, give recognition, communicate results, keep scores and maintain momentum by making annual improvement part of the systems and processes of the company. Series of criticisms have trailed Juran's contribution to total quality management in recent time.

# **Theoretical Framework**

This study is based on the postulations of Deming theory of total quality management. The Deming theory of total quality management is based on the concept of customer and the satisfaction the customer derives from consuming quality product and receiving quality services (Deming, 1986). Deming in his theory, he encourages American managers to produce quality product and rendering quality in order to satisfy the customer. More so, quality can be assessed by looking at performance, reliability, conformity to standards, durability, service ability, aesthetics and complying with customer requirements. According to the theory, to achieve customer satisfaction, the quality process must be improved upon by organisation in the quest of meeting the customer demands and continuous process improvement management in producing quality goods and services in customer-focused organisations (Deming, 1986).

A conceptual framework of the study on the relationship between TQM practices of top management, strategic planning, customer focus, process management, employee relations and general organizational performance is given below:



Source: Adapted framework of Al-Damen (2017)

# **Empirical Review**

In reviewing existing empirical studies on total quality management practices and organistional performance, a negative and positive relationship, as well as lack of relationship between the variables were identified. Awolusi (2013) examine the effects of total quality management on customer service management in the Nigerian banking industry. The study adopted the use of Malcolm Baldrige National Quality Award (MBNQA) framework. The result of the Malcolm Baldrige National Quality Award (MBNQA) framework showed that top management commitment was very keen for the successful implementation of total quality management in Nigerian banking industry. In the light of the above, we observed that there is significant relationship that exists between top management commitment and performance. Based on the prior studies, the study utilizes top management commitment as a variable of total management practices by formulating

hypothesis that top management commitment has a significant positive influence on performance of the banking industry.

Horsfall, Ukoha, and Alagah (2018:14), carried out a study on total quality management and organizational success of manufacturing firms in Rivers state of Nigeria. The study made use primary source of data as collected by structured questionnaire and using a sample size of 238 respondents out of a population size of 588. This study used total quality management dimensions such as product improvement, process improvement and customer focus and measures such as employee and customer satisfaction with an encompassing moderating variable which is technology towards integrating the unit of measures of employed variables. However, they found out that a positive and significant relationship was found amongst employed variables showing that a rise in any of the total quality management is very likely to give birth to a corresponding rise in their organizational success status.

Abuzaid (2015) indicated that the Jordanian private hospitals applying the total quality management practices with high degree. The highest focus of private hospitals within total quality management practices is on customer orientation, supplier management, strong support from top management to the quality efforts and a concern from the target hospitals in participation of employees in quality management activities.

This claim is reinforced in the works of Wani and Mehraj, (2014), when their findings showed that successful total quality management implementation results in improving overall organisational performance such as improved employees participation, better communication and improved enrollment of learners, better quality and improved competitive advantage. The improvement in its outcomes may have lent credence to its relevance and general acceptability in the world over.

In a research conducted by Ogbari and Borishade, (2015), the study examined the relationship between total quality management and customers' satisfaction in services industries. The aims among others were to evaluate the relationship between top management commitments and customers' retentions as well as to examine the influence of organisational reputation on customers' continuous patronage. The analysed data also revealed that total quality management and customer satisfaction have increased steadily over a period of time in some service industries but top management still have much to do in order to entrench total quality management and customer satisfaction as policies in their organisation. The authors recommended a holistic adoption of total quality management and customer service tenants and its entrenchment in all organisation for quality customer services and satisfaction.

Talib, Rahman and Qureshi (2013b) conducted a study on the relationship between total quality management practices and quality performance in Indian service companies. They adopted a survey research design by administrating structured questionnaires to employees of four service companies (healthcare, banking, ICT, hospitality) for the empirical analysis. The empirical results revealed that there is a strong correlation relationship between TQM practices and quality performance. The result also showed that there is a significant relationship between the variables total quality management practices and performance of the service industry. This means that increase in technological innovation as one of the TQM practice would significantly lead to increase in the performance of the service relationship between the above; we observed that there is a positive relationship

between technological innovation and performance. Based on the prior studies, the study utilizes technological innovation as a variable of total management practices by formulating hypothesis that technological innovation has a significant positive influence on performance of the banking industry.

# METHODOLOGY

#### **Research Design**

This study adopted the survey research design using the case study approach. This technique was adopted because of its advantages over other methods in terms of coverage of relatively high population and the generalization of the sample selected to the population.

## Sources of Data

The nature of this study necessitated the use of primary data, which were collected through the questionnaire administered on members of staff of the Nigerian Petroleum Development Company (NPDC), Benin City. However, the total number of staff of NPDC was obtained from the company's records.

# The Population and Sampling Technique

The population of the study includes all employees of NPDC, Benin City, Edo State of Nigeria. The population comprises top managers, middles managers and front line managers respectively. The total number of staff in NPDC Benin is 700 (Personnel Department, 2020). A simple random sampling technique was used in selecting the sampled respondents. The justification for using random sampling technique is that it eliminates the possibility that the sample is biased by the preference of the individual selecting the sample (Bordens& Abbott, 2002). Therefore, the sample size will be obtained using the Yamane (1981) formula:

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

Given the population size of 700 and an assumed significance level of five percent (5%), the sample size is computed as  $n = \frac{N}{1 + Ne^2}$ .

## n= 254.54

Therefore, 255 questionnaires were administered to full time employees of NPDC, Benin City.

The survey questionnaire was divided into two sections: A and B. Section A questions were about the TQM constructs and section B questions are about performance constructs. TQM constructs are: top management, customer strategic planning, customer focus, process management and employee relations. All questions were measured using the 5 point Likert scale method ranging from Strongly Agree to Strongly Disagree. Questions on TQM construct were adapted from the instrument developed by Singh, Kumar and Singh (2018), while performance construct questions were adapted from Adediran and Adediran (2009).

## **Test of Reliability**

The reliability for the internal consistency of the construct items for the dependent variable and the independent variables were from 0.727 to 0.825. The highest reliability of

internal consistency result was top management with a cronbach alpha value of 0.825, followed by organisational performance with a cronbach alpha value of 0.819, followed by customer focus with a cronbach alpha value of 0.782, followed by employee relation with a cronbach alpha value of 0.775, followed by strategic planning with a cronbach alpha value of 0.730 and process management with a cronbach alpha value of 0.727. This means that the Cronbach's Alpha for all the variables is more than 0.70. The variables were considered to be good for internal alpha which is between 0 and 1. This means scales in this reliability analysis were well-established and the result was acceptable for further empirical analyses.

# DATA PRESENTATION AND ANALYSIS

Data collected were analyzed using both descriptive and inferential statistical techniques. A total of two hundred and fifty-five (255) questionnaires were administered to the sampled respondents and one hundred and forty-six (146) was duly returned and usable, and subsequently analyzed. Therefore, the response rate was 57.3%. The gender distribution of respondents who returned usable copies of questionnaire administered of whom, 126 (86.9%) were males and 19 (13.1%) were females. This implies that majority of the respondents were males. The age distribution of the sampled respondents, 7 (4.8%) of respondents were aged 25-30 years, 41 (28.3%) of respondents were aged 31-36 years, 62 (42.8%) of respondents were aged 37-42 years and 35 (24.1%) of respondents were aged 42 years and above. This shows that majority of the respondents were aged 37-42 years. On the issue of marital status of the sampled respondents, 117 (82.4%) of respondents were married, 23 (16.2%) of respondents single, 1 (0.7%) of respondents were separated and 1 (0.7%) of respondents were widowed. This shows that majority of the respondents were married. On highest educational qualification of the respondents who returned valid copies of distributed questionnaires of whom 4 (2.8%) of respondents possessed SSCE certificate, 69 (48.9%) of respondents possessed HND/BSC certificate, 66 (46.8%) of respondents possessed MSC/MBA certificate and 2 (1.4%) of respondents possessed PHD certificate. This means that majority of the sampled respondent's possessed HND/BSC certificate. On the issue of rank, 4 (2.8%) of the respondents were in top management, 99 (69.2%) of the respondents were senior staff, 2 (1.4%) of the respondents were in junior staff, 37 (25.9%) of the respondents were in contract staff and 1 (0.7%) of the respondents were casual staff. This means that majority of the respondents were in senior staff. On the number of years work in the organisation, 21 (14.5%) had work for the period of 0-5 years, 31 (21.4%) had work for the period of 6-10 years, 63 (43.4%) had work for the period of 11-15 years, 20 (13.8%) had work for the period of 16-20 years and 10 (6.9%) had work for the period of 21 years and above. This shows that majority of the respondents had work for the period 11-15 years.

# **Pearson Correlation**

The Pearson correlation matrix was to the relationship between total quality management practices and organisational performance. It would be revealed from the correlation coefficient that top management (TOPM) and organisational performance (OPF) were positive and moderately correlated (0.56). This means that increase in top management might lead to improved organisational performance. The correlation coefficient also showed that strategic planning (STRP) and organisational performance (OPF) were positive and moderately correlated (0.30). This implies that regular planning might lead to improved organisational performance. It would be revealed from the correlation coefficient that process management (PROSM) and organisational performance (OPF) were

positive and moderately correlated (0.46). This implies that intensive process management might lead to improved organisational performance. Also, the correlation coefficient showed that customer focus and organisational performance (OPF) were positive and moderately correlated (0.30). This implies that more customer focus might lead to increase organisational performance. The correlation coefficient result showed that employee relation (EMPR) and organisational performance (OPF) were positive and moderately correlated (0.44). This means that good employee relation adopted by policy makers might enhance organisational performance. A careful look at the correlation coefficients, a positive and moderate correlation relationship exists between total quality management practices and organisational performance. The correlation results also revealed the absence of multicolinearity problem among the explanatory variables. Multicollinearity between explanatory variables may result to wrong signs or implausible magnitudes, in the estimated model coefficients, and the bias of the standard errors of the coefficients. It would be noted that correlation was a mere relationship until it was significantly significant. The correlation result was presented in Table 1 below:

| VARIABLE | OPF  | TOPM | STRP | PROSM | CFOS | EMPR |
|----------|------|------|------|-------|------|------|
| OPF      | 1    |      |      |       |      |      |
| ТОРМ     | 0.56 | 1    |      |       |      |      |
| STRP     | 0.30 | 0.47 | 1    |       |      |      |
| PROSM    | 0.46 | 0.64 | 0.59 | 1     |      |      |
| CFOS     | 0.30 | 0.34 | 0.27 | 0.40  | 1    |      |
| EMPR     | 0.44 | 0.45 | 0.28 | 0.41  | 0.72 | 1    |

# **Table1: Pearson Correlation Result**

Source: Author's Compilation (2020)

**Multiple Regressions Analysis** 

The study employed multivariate regressions analysis technique to test the formulated hypotheses given the individual significance of the variables. The multiples regressions result between total quality management practices and organisational performance was empirically tested and the results were presented in table 2 below:

| Variable                 | Coefficient    | t-test | P-value |
|--------------------------|----------------|--------|---------|
| С                        | 1.61           | 5.94   | 0.0000  |
| TOPM                     | 0.30           | 4.11   | 0.0001  |
| STRP                     | -0.02          | -0.27  | 0.7873  |
| PROSM                    | 0.14           | 1.57   | 0.1176  |
| CFOS                     | -0.05          | -0.81  | 0.4168  |
| EMPR                     | 0.14           | 2.71   | 0.0075  |
| R-Square = $0.3^{\circ}$ | 78240          |        |         |
| Adjusted R-Squ           | are = 0.356035 |        |         |
| F-Statistic = 17.        | .03349         |        |         |
| Prob. (F-Statisti        | ic) = 0.000000 |        |         |

# **Table 2: Multiple Regressions Results**

Source: Author's Compilation (2020)

Durbin Watson Statistic = 1.344464

It would be observed from table 2 that the coefficient of determination (adj. R<sup>2</sup>) value of 0.356035 that about 36% of the systematic variations in organisational performance were jointly explained by top management, strategic planning, process management, customer focus and employee relation. The remaining 64% was captured by the error term. The F-statistic value of 17.03349 showed that there was a significant linear relationship between

total quality management practices and organisational performance. The Durbin Watson value of 1.344647 revealed the presence of serial autocorrelation in the regression results it was irrelevant in this study due to the nature of data employed.

Following the above, it would be revealed from the multiple regressions results that top management (TOPM) had a significant positive relationship with organisational performance (OPF) at 1% level of significance. This means that we were 99% confidence level that increase top management would significantly lead to increase organisational performance. This implies that the positive coefficient value of top management (0.30) accounted for 30% increase in organisational performance. The significant relationship of top management was because it passed the individual test of significance.

The results showed strategic planning (STRP) had an insignificant negative relationship with organisational performance (OPF) even at 5% level of significance. The negative coefficient value of strategic planning (-0.02) accounted for 2% decrease in organisational performance but it was statistically insignificant. The insignificant of strategic planning was because it failed the individual test of significance.

The results also showed process management (PROSM) had an insignificant positive relationship with organisational performance (OPF) even at 5% level of significance. This implies that the positive coefficient value of process management (0.14) accounted for 14% increase in organisational performance but it was statistically insignificant. The insignificant of process management was because it failed the individual test of significance.

The variable, customer focus (CFOS) had an insignificant negative relationship with organisational performance (OPF) even at 5% level of significance. This implies that the negative coefficient value of customer focus (-0.05) accounted for 5% decrease in organisational performance but it was statistically insignificant. The insignificant of customer focus was because it failed the individual test of significance.

The results also showed employee relation (EMPR) had a significant positive relationship with organisational performance (OPF) at 1% level of significance. This means that we were 99% confidence level that good customer focus adopted would significantly lead to increase organisational performance. This implies that the positive coefficient value of leadership (0.14) accounted for 14% increase in organisational performance. This therefore means that good customer focus adopted by management would significantly enhance organisational performance. The significant of customer focus because it passed the individual test of significance.

## **DISCUSSION OF FINDINGS**

The multiple regressions results revealed that top management had a significant positive relationship with organisational performance at 1% level of significance. The finding was consistent with the findings of Alghamdi (2018) and Awolusi (2013) that there is significant relationship that exists between top management and organisational performance. This study therefore suggested that we should reject the null hypothesis that top management has no significant relationship with organisational performance. Strategic planning had an insignificant negative relationship with organisational performance. The finding was inconsistent with the findings of Owolabi and Makinde (2012) and Muogbo (2013) that a significant positive relationship exists between strategic planning and organisational performance. The finding of Ferreira and Proença (2015) was inconsistent

with the results that strategic planning has a positive influence on organisational performance. This study therefore suggested that we should accept the null hypothesis that strategic planning has no significant relationship with organisational performance. Process management had an insignificant positive relationship with organisational performance. The finding was inconsistent with the findings of Horsfall, Ukoha and Alagah (2018) that a positive and significant relationship between process management and organisational performance. This study therefore suggested that we should accept the null hypothesis that process management has no significant relationship with organisational performance. Customer focus had an insignificant negative relationship with organisational performance. The finding was inconsistent with the findings of Horsfall, Ukoha and Alagah (2018) that a positive and significant relationship between customer focus and organisational performance. The findings of Asaad and Ayman (2019) were inconsistent with the results that customer focus had a significant relationship with organisational performance. This study therefore suggested that we should accept the null hypothesis that customer focus has no significant relationship with organisational performance. Employee relation had a significant positive relationship with organisational performance (OPF) at 1% level of significance. The finding was inconsistent with the findings of Salaheldin (2008) that employee relation and organisational performance was positively and significantly related. This study therefore suggested that we should reject the null hypothesis that employee relation has no significant relationship with organisational performance.

# CONCLUSION AND RECOMMENDATIONS

Total quality management engages all organisational staff members in the process of covering customers' expectation through utilizing problem solving methods to enhance the quality of all Organisational products and services. It is considered as a comprehensive integration between several models, procedures, individuals and communication processes to cover all customer demands. Total quality management is a management strategy that enables an organisation to continuously meet agreed customer requirements by consistently achieving planned and continuous improvement in the quality of all activities, processes and results at the lowest overall cost. Total quality management as a tool of strategic management provides relevant information needed by managers in making decisions useful in meeting the organisational goals. The study showed that there is a significant relationship between top management, employee relations and organizational performance and an insignificant relationship between strategic planning, customer focus, process management and organizational performance. However, the insignificant relationship between some TQM variables and organizational performance may imply mediational relationship among TQM practices.

In line with the results of this study, the following recommendations are made:

- The study recommends that the commitment of top management as component of total quality management practices as this would significantly enhance organisational performance.
- 2. Given the significant relationship found between employee relations and organizational performance, the study also recommends that management should pay high attention to practicing new methods for improvement and give training programs to the employees in the organization to enable them understand well the philosophy of Total Quality, which will result in positive outcomes for the organization.

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Further studies that incorporate the TQM practices measured in this research or other practices of TQM focusing on the private sector should be conducted.

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# FEDERAL UNIVERSITY OTUOKE JOURNAL OF MANAGEMENT SCIENCES

# STATISTICAL ANALYSIS OF THE ROLE OF SELECTED INSTITUTIONS IN SMALL AND MEDIUM ENTERPRISES (SMEs) GROWTH IN NIGERIA

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# ABSTRACT

This study examines the statistical analysis of the role of some selected institutions in small and medium enterprises (SMEs) growth in Nigeria. The broad objective of this study is to statistically examine the role of institutional environments in the growth of SMEs in Nigeria. In the study, the conceptual, theoretical and empirical literatures are articulated. This study uses secondary data, sourced from United Nations Development Program (UNDP), Global Entrepreneurship Monitor Data base, Institutional Governance Indicators data base in World Bank and Corporate Affairs Commission, (CAC) Abuja Nigeria. The period of the study spans 21 years from 1996 to 2016. The period is long enough to cater for the loss of degree of freedom. The study uses the period because data on institutional governance indicators are readily available for the period under consideration. The method of data analysis is strictly on descriptive statistics for variables. This analysis is carried out using econometric software (E-view 8.0) version. The study concludes that except for POLINEV, the NORMIEV, REGUINEV, LEGALIEV and CGNNIEV have not successfully used their role in impressively influencing the SMEs in Nigeria. The study recommends that government officials should be sincere enough to address the mentions problems so as to improve the lots of SMEs in Nigeria.

Keywords: Statistical analysis, selected institutions, small and medium enterprises, growth.

# INTRODUCTION

In our modern world, small and medium enterprises (SMEs) have persistently contributed considerably to the growth levels of most economies around the globe. Thus the operations as well as the importance of small and medium enterprises (SMEs) have reached public prominence. Small and medium enterprises (SMEs) among other things have continued to create much wealth, closing inequality gap, generating employment opportunities in a scale ever imaged, reviving idle local resources, by dragging them into the production processes and adding to the productive capacities of most world economies. (Jegede & Akinwale, 2013;). On the other hand, Institutional Environment is the set of

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fundamental, political, regulatory, social and legal ground rules that establish the basis for production, trade, exchange, distribution and human interaction (North, 1990).

On this note, the World Bank (2015) stressed that building strong institutions is not only important to minimizing business failures but also to avoid economic depression. Previous studies on institutional environment posit that institutional environment explains cross-country differences in growth and business development as countries with better institutions have higher levels and rates of growth than countries with poor institutional environments. They have argued that strong institutional environment creates incentive for investments (North, 2005), platform for innovation mobilization of resources for new venture creation (Seawright, 2010) and reduction in transaction costs, and risk which are critical behavours for entrepreneurship development. In response to this, Nigeria has made several polices over the years to strengthen its institutional environment and governance capacities. She has strengthened the rules, laws, codes, policies and their connectivity with broader institutional environment. But the extent to which the policies have affected the development of SMEs is yet to gain much empirical attention in Nigeria. It is based on this background that this study examines the impact of institutional environment on small and medium enterprises in Nigeria.

The content scope of this study is the role of some selected institutions in the growth of small and medium enterprises in Nigeria. Specifically, institutional environment is delimited to quality of normative, political, regulatory, legal, and cognitive institutions in Nigeria. The time frame of the investigation covers the period of 1996 to 2016. We have chosen this period because the data on the dimensions of institutional environments and number of registered SMEs employments in Nigeria were readily available. The geographical scope of this study is Nigeria though the findings of the study will have far reaching implications for other countries in sub-Sahara Africa since they have similar institutional characteristics. The time frame of 1996 to 2016 also represent the mixed period when the country transits from Military rule to unbroken democratic governance, a period of technical recession, price and other microeconomic volatility. The period also witnessed remarkable and departmental changes in terms of structure, operational activities, increase in the number of Small and Medium Enterprises businesses and the volume of transactions that have recorded significant increase during the period under consideration. The relevant secondary data were sourced from United Nations Development Program (UNDP), the Enterprise Survey Unit of the World Bank, and Worldwide Governance indicators data base in World Bank which are acknowledged in the literature as creditable, sufficient, and reliable sources of the data needed to estimate the variable under consideration.

The broad objective of this study is to statistically examine the role of institutional environments in the growth of SMEs in Nigeria.

The paper is classified into five sections. Section one is the introduction. Section is on theoretical and empirical literature review. Section three discusses the methodology. Section four presents the discussions of the statistical results and section five is on conclusion and recommendations.

## LITERATURE REVIEW

#### STATISTICAL ANALYSIS OF THE ROLE OF SELECTED INSTITUTIONS...

## **Conceptual and theoretical literature**

Many scholars had attempted to conceptualize small and medium enterprises (SMEs) growth. This has hitherto been conceptualized from micro and macro levels terms of sustaining growth (Adesanya, 2015). It has been defined as sustained increase in turnover, profits and innovation capacity at micro levels or firm specific. From macro levels, Small and Medium Enterprises (SMEs) development is viewed as sustained increase in number of established SMEs, contribution of SMEs to total employment, and shares to gross domestic products of a nation. In this regard, this study explored SMEs development at both micro and macro levels bearing in mind that bi-directional relationship exists between SMEs development at micro and macro levels. This is because sustain increase in turnover, profits and innovation of SMEs explains the magnitude of SMEs contribution to employment generations, gross domestic products and national competitiveness.

## SMEs (Growth) Development at Micro Level

At micro level, SMEs development is often gauged by its performance indicators such as increase in profits, turnover, number of staff and production outputs. It is the degree to which SMEs command increase in market share, sales, total balance sheet, and return on investment, profit or earnings. It is therefore viewed as the ability to meet set objectives through effective and efficient utilization of resources. These definitions aligned with SMEs performance, which is based on the degree to which resources are judiciously employed by owners of SMEs, generate income over a specified period. In this vein, SMEs development can best be understood through balanced scorecard, (Lin & Chen, 2007) which focuses on both financial and non-financial measures of performance. According to Lin, & Chen, (2007), the balance scorecard has four key perspectives: financial, customer, internal business and learning and growth perspectives. The financial perspective incorporated net income, return on sales, and return on investment, and economic value added. It captures the ability of a firm to develop profits from its assets or investment and thus assesses the effectiveness of the capital employed. This provides a basis in which owners of SMEs can measure the viability and earnings generated from its investment in capital assets.

The customer perspective is often viewed based on how SMEs develop its market. It also develops when firms attract new customer and sustain its effort to retain its existing customers. The internal business perspective comprises of the innovation process, innovation performance, operating process and post sales services. Innovation performance means the ability of SMEs to continuously generate and translate ideas and change into marketable new or significantly improved devices, products, processes and services (Lin, & Chen, 2007). In this way, innovation encompasses inventions though it is only when an invention or creative idea is institutionalized, implemented or commercially exploited that it becomes innovation. Though innovation can take place in product, process, systems, SMEs innovation is usually measured with the aggregates of all innovations adopted within firms; percentage of sales generated by innovations, counts of patent listed, innovation inputs such as investments research and development or other innovation-related activities, processes and expenditures and novelty. The last four matrices of balance score cored is the learning and growth perspective, which involve employee education and skill levels, employee satisfaction, employee turnover, hours of Staff training and information system availability. It is the degree to which SMEs invest in employee training and skills acquisitions and reward of the Staff.

## SMEs (Growth) Development at Macro Level

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At macro level or from a country specific, SMEs development is viewed as sustained increase in many established SMEs in a country. It is an increase in number of SMEs startup yearly, the degree to which people are venturing into SMEs, and number of yearly registered SMEs (World Bank, 2015). It is the degree to which SMEs consistently generates employment. More so, many studies have defined SMEs development as sustain increase in shares of SMEs to gross domestic products. These strings of authors believed that SMEs is said to be developing when its contributions to gross domestic products as well as employment generation are increasing.

In the light of the above, the numbers of SMEs formation yearly in a country, their contribution to economic growth and employment are central to determining how a country is perceived to have stimulated the right environment for SMEs development. This study therefore uses the number of established SMEs yearly in Nigeria in addition to innovation performance of SMEs to measure SMEs development in Nigeria.

In conceptualizing different dimensions of institutional environments, North (1990) focuses on formal and informal, overt or implicit institutional environment. Kostova (1997) suggested regulatory, cognitive and normative dimension of institutional environment which have come to be known as the three institutional pillars, further suggested the following: political institutional environment, legal institutional environment (rules of law), regulatory institutional environment, government polices (government effectiveness), accountability and corruption as indicators of institutional environment. Other studies have also added financial institutional environments (Kostova, 1997) to the three institutional pillars to explain organizational performance over time. Furthermore, other studies have also looked at institutional environment from a broader perspective: political, technological, economic, social-cultural and legal business environments. Drawing on Kostova (1997), dimensions of institutional environments, this study focused on regulatory, legal, cognitive, normative, and political institutional environment.

## **Theoretical Literature**

This study draws on institutional, cognitive behavioural and human capital theories to explain the relationship between institutional environment and SMEs development. It also applied social capital and entrepreneurial ecosystems approach.

## Institutional Theory

Institutional theory developed by North (1990) is defined as formal (law, state policies, economic rules) and informal (codes of conduct, organizational cultures and conventions) rules or arrangements and their enforcement characteristics. North (1990) indicated that institutions exist due to the uncertainty involved in human interactions. They are constrained devised to structure those interactions. Institutional theory posits that business structure, decisions and actions are affected by its social environment. They are less formal shared interactions derived from professions, scripts and other societal and cultural practices that organizations and individuals are expected to follow. The theory posits that the rules derived from institutions like court and regulatory agencies set market rules, structure interactions among economic actors, and as such adherence to the rules may serves not only to protect firms or individuals (SMEs) from formal, economic penalties, but also to create legitimacy, which serves to advance the firms current and future performance.

#### STATISTICAL ANALYSIS OF THE ROLE OF SELECTED INSTITUTIONS...

Drawing from the assertion that institutions are super conditions for the mobilization of resources among SMEs, previous studies have investigated how different institutional arrangement influence SMEs mobilization of resources and development. It demonstrated formal (such as statutory law) and informal constraints (such as customs and traditions) and defined the incentive structures that determine the rate of productive activities of small and medium enterprises. Empirical study by Welter & Smallbone, (2008) found that institutional environment dictates not only the structure of an organization but also incentive to invest and engage in business formation. Welter and Smallbone (2008) indicated that, though formal institutional forces condition the actual level of entrepreneurial opportunities, it is the informal institutions that shape the collective and individual perception of entrepreneurship as they are more stable than informal institutions.

Grilo and Thurik (2005) empirical evidence further validated the impact of institutional environment on the performance of business when it documented that the regulatory institutional environment that tend to be harsh, complex and unfriendly discourages entrepreneurship. They influence individual perception of business environment within the country, which in turn, influences venture creations and development. They added that entrepreneurial behavior, SMEs formation and performance are strongly triggered and highly conditioned by institutions. They further argue that human beliefs and interest in SMEs development are social and cultural in origin, and thus suggested that institutions promote entrepreneurship and SMEs performance.

Furthermore, Stenholm (2013) built on Scott's (1995) institutional pillars to examine the influence regulatory, normative, and cognitive dimensions of entrepreneurial activity on business performance and found that differences in institutional arrangements have significant influence on both the rate and the type of entrepreneurial activity in a crosssectional country-level study. Stenholm (2013) further indicated that while the institutional regulations have more impact on the rate of entrepreneurial activity, but they matter very little in the formation of new ventures. Interestingly, by structuring, constraining, and enabling individual behaviors, institutions have been adjudged to mold capacity to directly, entirely, or uniformly determine individual business expansions and development. They further suggested that a society's normative, cultural-cognitive, and regulative institutions are related and influences business activities. The work found that normative and culturalcognitive institutions' descriptive power in explaining entrepreneurial and SMEs performance is higher than regulatory institutions.

# **Empirical Literature**

Employing a sample of 326 (43%) entrepreneurs (entrepreneurs who are currently running successful businesses that had been in operation for over 2 years) and 431 (57%) non-entrepreneurs from eight countries, Scott (1995) examined the extent to which institutions (legal systems, financial systems, corruption and country's educational system) influence venture creation decisions, where entrepreneurial expert scripts (venture arrangements, venture willingness and venture ability scripts) act as a mediator. The entrepreneurial munificence of the legal system was measured by two indicators: property rights (scale from 1 to 5) and regulation policies related to opening and keeping a business (scale from 1 to 5). A higher score for property rights indicates that private property is better protected. A higher score on regulation means that regulations are straightforward, less burdensome, and applied uniformly to all businesses. The financial system was operationalized with three variables: (1) the relative size of the stock market to that of

banks (structure-size), (2) the relative intensity of activity in stock markets vis-à-vis the banking sector (structure-activity), and (3) the relative efficiency of stock markets vis-à-vis the banking sectors (structure-efficiency).

The venture arrangements script was measured with resource access, venture-specific skills. The venture willingness script was gauged with commitment tolerance and opportunity motivation. The venture ability script was extracted from ability-opportunity fit, venturing diagnostic ability and venture situational knowledge. Using structural equation modeling developed to simultaneously analyze multiple criteria of predictor constructs and unobservable theoretical constructs, the study showed that institutional arrangements, legal, and financial systems, significantly affect venture arrangements and willingness scripts. Among the four institutional factors (legal systems, financial systems, corruption and country's education system) that constitute a business system, the legal and financial systems were found to significantly influence venture arrangements and willingness scripts. Specifically, the study found that the degree of entrepreneurial munificence of a legal system is positively associated with the individual level venture arrangement scripts and venture willingness scripts. The significant path between financial system and venture arrangements scripts suggests that the degree to which a country's financial system is market-based (vis-à-vis bank-based) is associated with a lower level of individuals' venture arrangements scripts. The study did not support the hypothesis that equity-based financial systems (compared with bank-based financial systems) are related to higher level of venture willingness scripts. The study further demonstrated that the paths between the country's education system and venturing scripts were not statistically significant over and above the effects of the other institutional factors in our model, except for the path between country's education system and venture ability scripts, which was marginally significant, thus supporting the hypotheses that a country's education system affects only venture ability.

Seawright (2010) specifically found that relationships between education system and venturing scripts were not significant, except for the marginally significant relationship between educational systems and venture ability scripts. They also did not find support for their hypothesis that there may be negative relationships between the level of corruption and venture willingness scripts despite previous contentions that unfair intervention by economic actors can create uncertainty that may discourage entrepreneurial activities. Their study showed that a positive correlation between trust relationships and venture willingness scripts, but this relationship was not statistically significant. Among institutional variables, legal system had the most substantial impact on venture arrangements scripts and venture willingness scripts. Education system was the only institutional variable that was hypothesized to be connected to venture ability scripts, although the path was not statistically significant.

## **Studies in Nigeria and other Africa Countries**

Using survey method, Okwu (2015) investigated business environment and the potentials of small and medium enterprises in Lagos. He draws 228 SMEs from 456 SMEs listed in the 2014 edition of Lagos Business Development (LBD), published by Ministry of Commerce and Industry using convenience sampling technique. Business environment was measured with perceptual measures of environmental factors like legal-regulatory (LGR), politics and policy (POP), infrastructure (INF), external finance (ESF), technology (TEC), competition (COM), taxes and other fees (TOF), social-cultural factors (SCF), labour

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availability and costs (LAC) and corruption (COR). The potentials of small and medium enterprises were measured with non-financial metrics of SME such as job creation (JCN), employment generation (EMP), innovation (INV) and growth (GRT) of SMEs. Using Least Squares (LS) techniques to analyzed effects of business environment on job creation, employment generation, innovation and growth potentials of SMEs in Lagos State, the study found that while politics and policy (POP), infrastructure (INF), external finance (ESF), technology (TEC), competition (COM), taxes and other fees (TOF), labour availability and costs (LAC) significantly drives SMEs innovation and growth, socio-cultural factors and corruption weakens the potentials of SMEs to innovate and grow. Okwu (2015) found that the business environment significantly enhances the potentials of the SMEs to create jobs, generate employment, innovate and grow.

Ode, Wombo, Ede and Mile, (2014) investigated the impact of Institutional Support on Small and Medium Enterprises in Benue State, Nigeria. They adopted questionnaires and interviews method to collect data from 225 SMEs drawn from 1,276 SMEs that engage three or more persons in agricultural sector, manufacturing, food and beverage processing, transport and hospitality. The findings of Ode, Wombo, Ede and Mile's (2014) study showed that, while, there exists a relationship between support initiatives and growth of SMEs, SMEs without any form of government support (financial and/or non-financial), performed better than those which received government support as they have a higher number of staffs employed and turnover. Ode, Wombo, Ede and Mile, (2014) demonstrated a significant difference in the performance of SMEs based on sectors and indicated that SMEs in some sectors naturally performed better than others due to the peculiarities of the sector because market demand for their various products and services differ. The study concluded that given that a huge proportion of the SMEs received no support, yet they performed reasonably well, support agencies (government or private) should not provide a blanket support for all SMEs. Rather they should consider industry diversity and potential for growth as basis for focus and provision of support.

## **Research Gaps**

There is a growing theoretical and empirical literature on how formal institutional environments promote or inhibit the development of SMEs across countries. Having carefully reviewed these extant empirical studies, we observed the following gaps in literature. This study aims at covering these gaps.

Firstly, it was observed especially from the empirical review, that many of the studies on the subject matter were conducted outside Nigeria- mostly in developed nations like United States, Europe, Asia, and America among others. Secondly, most studies on institutional environments and SMEs development employed survey method as means of data collection, which at times, are vulnerable to self-bias, manipulations and poor representation of true population. Thirdly, many of the studies used cross-countries data, which may not be suitable or appropriate to formulate policy at individual country specific level due to the differences in cross cultural context. To the best of the researcher's knowledge, the few studies, (Ode et al., 2014 & Okwu, 2015) that made attempt to investigate the relationship between institutional environments and SMEs in Nigeria were conducted in Lagos and Benue States. They focused on only three of the dimensions of institutional environment (Legal, Politics & Social), and using survey method, thus neglecting the other states of the federation as well as the influence of other dimensions of institutional environment. Fourthly, other studies employed only Ordinary Least Squares

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(OLS) as method of data analysis with little effort at employing the Error Correction Model (ECM) that provide the benefit of comparing short-run dynamics with long-run equilibrium of the data.

Empirical and theoretical research studies linking the role of institutions to the conduct of business and their impact on entrepreneurship and SMEs development in Nigeria is lacking. There is paucity of research studies in Nigeria, to show understanding on how SMEs perceive the institutional environment impact on their performance and development. Furthermore, there is little understanding on how individual element of the formal institutional environment affects SMEs development in Nigeria. It is based on this background/gaps that this study examines the impact of institutional environment on Small and medium scale enterprises in Nigeria.

# METHODOLOGY

# Population of the study

The study adopts aggregate data on the institutional environments and the development of SMEs in Nigeria. The total number of the registered SMEs in Nigeria from 1996 to 2016 represents the population of the study. This is justified as the data used are aggregate of the parameters of SMEs and institutional environment peculiar to Nigeria.

# **Sources of Data**

This study uses secondary data, sourced from United Nations Development Program (UNDP), Global Entrepreneurship Monitor Data base, Institutional Governance Indicators data base in World Bank and Corporate Affairs Commission, (CAC) Abuja Nigeria. The period of the study spans 21 years from 1996 to 2016. The period is long enough to cater for the loss of degree of freedom. The study uses the period because data on institutional governance indicators are readily available for the period under consideration.

# **Method of Data Analysis**

The method of data analysis is strictly on descriptive statistics for variables. This analysis is carried out using econometric software (E-view 8.0) version.

| DATA PRESENTATION, ANALYSES AND INTERPRETATION |  |
|--|--|
| Presentation of Descriptive Statistics         |  |
|  |  |

|              | SMEDEV    | NORMIEV   | POLINEV  | REGUINEV  | LEGALIEV  | COGNNIEV  |  |  |
|--------------|-----------|-----------|----------|-----------|-----------|-----------|--|--|
| Mean         | 1.380952  | 9.109048  | 5.899524 | 17.26143  | 9.783810  | 0.595176  |  |  |
| Median       | 1.400000  | 10.73000  | 4.850000 | 19.42000  | 11.85000  | 0.600400  |  |  |
| Maximum      | 1.600000  | 19.42000  | 26.60000 | 27.01000  | 15.87000  | 0.649000  |  |  |
| Minimum      | 1.100000  | 0.000000  | 0.000000 | 0.000000  | 0.000000  | 0.510500  |  |  |
| Std. Dev.    | 0.128915  | 5.624905  | 5.909051 | 8.972383  | 5.050561  | 0.044663  |  |  |
| Skewness     | -0.211920 | -0.299847 | 2.283329 | -0.874870 | -0.846904 | -0.451209 |  |  |
| Kurtosis     | 2.660902  | 2.267882  | 8.528080 | 2.557529  | 2.596501  | 1.810056  |  |  |
| Jarque-Bera  | 0.257799  | 0.783676  | 44.98729 | 2.850200  | 2.652825  | 1.951535  |  |  |
| Probability  | 0.879062  | 0.675814  | 0.000000 | 0.240484  | 0.265428  | 0.376903  |  |  |
|              |           |           |          |           |           |           |  |  |
| Sum          | 29.00000  | 191.2900  | 123.8900 | 362.4900  | 205.4600  | 12.49870  |  |  |
| Sum Sq. Dev. | 0.332381  | 632.7912  | 698.3377 | 1610.073  | 510.1633  | 0.039896  |  |  |
| Observations | 21        | 21        | 21       | 21        | 21        | 21        |  |  |

Table 1: Descriptive Statistics

Source: Extracted from E-view 8.0 Output (Author's Computation, 2018)

The table above showed that the yearly average SMEs development (SMEDEV), which was gauged by yearly number of those individuals whose remuneration directly dependent

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upon their profits derived from goods and services produced and have engaged on a continual basis, one or more persons to work for them is 1.380952 with maximum (highest) of 1.600000 and minimum (lowest) value of 1.10000 within the time under consideration. The standard deviation for SMEs development, which measures the speed of distribution or dispersion of the set of data on SMEs development from the mean stood at 0.1289. This standard deviation value is quite low. It indicates that the set of the data on SMEs development do not significantly varies from the mean. Moreover, the Jarque-Bera values for SMEs development is 0.257799 with probability value of 0.879062, which is greater than 5% level of significance. This value indicates that the data series on development of SMEs is normally distributed within the period under consideration. Kurtosis value for SMEs development which measures the peak-ness or flatness of the distributions of the variable is 2.66, which is less than the critical value of 3. This implies that the time series or data for SMEs development do possess flat distributions that are relatively normal. The value of skewness for SMEs development is -0.211920. This value means that SMEs development is negatively skewed, thus, indicating that the development of SMEs has been declining within the period under consideration.

The table above also showed that the average index score on normative institutional environment (NORMIEV) is 9.109048 with maximum (highest) of 19.42000 of critical value of 100. This means that Nigeria scored very low in the development of normative institution with a maximum score of 19.42 which is below the 100 benchmarks. Hence, the quality of normative institutional environment can be said to be low even after the establishment of several agencies to fight corruption, develop good governance and moral norm in the country. The standard deviation for normative institutional environment (NORMIEV), which measures the speed of distribution or dispersion of the set of data from the mean stood at 5.624905, which is quite high. This indicates the set of the data or index score on normative institutional environment (NORMIEV) significantly varies from the mean score. Moreover, the Jarque-Bera value for normative institutional environment (NORMIEV) is 0.783676 with probability value of 0.675814 which is greater than 5% level of significance. This indicates that index score on normative institutional environment (NORMIEV) is normally distributed within the period under consideration. Kurtosis value for institutional environment (NORMIEV) which measures the peak-ness or flatness of the distributions of the variable is 2.267882 which is less than the critical value of 3. This means that the errors of the index score on institutional environment (NORMIEV) is possess flat distributions that is relatively normal. The value of skewness for normative institutional environment (NORMIEV) is -0.299847. This value means that institutional environment (NORMIEV) negative skewed, thus, indicating that the quality of normative institutional environment (NORMIEV) has been declining within the period under consideration.

From the above table showed that the average index score on political institutional environment (POLINEV) is 5.899524 with maximum (highest) index of 26.60000 of total score of 100. This means that the political institutional environment in Nigeria is also perceived to be low since the maximum score of 26.6 is also far below the 100 benchmarks. The standard deviation for political institutional environment (POLINEV), which measures the speed of distribution or dispersion of the set of data from the mean stood at 5.90, which is quite high. This indicates the set of the data or index score on political institutional environment (POLINEV) significantly varies from the mean score. Moreover, the Jarque-Bera value for political institutional environment (POLINEV) is 44.98729 with probability

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value of 0.00000 which is less than 5% level of significance. This indicates that index score on political institutional environment (POLINEV) is not normally distributed within the period under consideration. Kurtosis value for political institutional environment (POLINEV) which measures the peak-ness or flatness of the distributions of the variable is 8.528080, which is greater than the critical value of 3. This means that the index score on political institutional environment (POLINEV) possess peak distributions. The value of skewness for political institutional environment (POLINEV) is 2.283329. This value means that political institutional environment (POLINEV) is positively skewed, thus, indicating that the quality of political institutional environment (POLINEV) has been increasing within the time period under consideration.

More so, the table above showed that the average index score on regulatory institutional environment (REGUINEV) is 17.26143 with maximum (highest) index of 27.01000 within the period under consideration. This maximum score of 27.01000 tend to be low when evaluated against the 100 benchmarks, suggesting that quality of the regulatory institutional environment is low. The standard deviation for regulatory institutional environment (REGUINEV), which measures the speed of distribution or dispersion of the set of data from the mean stood at 8.972383, which is quite high. This indicates the set of the data or index score on regulatory institutional environment (REGUINEV) significantly varies from the mean score. Moreover, the Jarque-Bera value for regulatory institutional environment (REGUINEV) is 2.850200 with probability value of 0.240484 which is greater than 5% level of significance. This indicates that index score on regulatory institutional environment (REGUINEV) is normally distributed within the period under consideration. Kurtosis value for regulatory institutional environment (REGUINEV) which measures the peak-ness or flatness of the distributions of the variable is 2.557529, which is less than the critical value of 3. This means that the errors of the index score on regulatory institutional environment (REGUINEV) possesses flat distributions that are relatively normal. Furthermore, the value of skewness for regulatory institutional environment (REGUINEV) is -0.874870. This value means that the regulatory institutional environment (REGUINEV) is negatively skewed, thus, indicating that the quality of regulatory institutional environment (REGUINEV) has been decreasing within the time period under consideration.

It was also gathered as shown above that the average index score on legal institutional environment (LEGALIEV) is 9.783810 with maximum (highest) index of 15.87000 within the time frame under consideration. This maximum score of 15.87000 tend to be low when compared with the 100 benchmarks, hence the quality of the regulatory institutional environment is low. The standard deviation for legal institutional environment (LEGALIEV), which measures the speed of distribution or dispersion of the set of data from the mean stood at 8.972383, which is quite high. This indicates the set of the data or index score on legal institutional environment (LEGALIEV) significantly varies from the mean score. Moreover, the Jarque-Bera value for legal institutional environment (LEGALIEV) is 2.652825 with probability value of 0.265428 which is greater than 5% level of significance. This indicates that index score on legal institutional environment (LEGALIEV) which measures the peak-ness or flatness of the distributions of the variable is 2.596501, which is less than the critical value of 3. This means that the errors of the index score on legal institutional environment (LEGALIEV)

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that is relatively normal. The value of skewness is -0.846904. This means that the legal institutional environment (LEGALIEV) is negatively skewed, thus, indicating that the quality of legal institutional environment (LEGALIEV) has been decreasing within the time period under consideration.

Finally, the above table showed that the average index score on cognitive institutional environment (COGNNIEV) is 0.595176 with maximum (highest) index of 0.649000 within the period under consideration. This suggests that the level of cognitive institutional environment (COGNNIEV) in Nigeria is relatively moderate as 59% of Nigerians tend to possess basic knowledge, or intellectual capacity. The standard deviation for cognitive institutional environment (COGNNIEV), which measures the speed of distribution or dispersion of the set of data from the mean stood at 0.044663, which is quite low. This indicates the set of the data or index score on cognitive institutional environment (COGNNIEV) do not significantly varies from the mean score. Moreover, the Jarque-Bera value for the cognitive institutional environment (COGNNIEV) is 1.95153 with probability value of 0.376903 which is greater than 5% level of significance. This indicates that index score on cognitive institutional environment (COGNNIEV) is normally distributed within the period under consideration. Kurtosis value for cognitive institutional environment (COGNNIEV) which measures the peak-ness or flatness of the distributions of the variable is 1.810056 which is less than the critical value of 3. This means that the errors of the index score on the cognitive institutional environment (COGNNIEV) possesses a flat distribution that is relatively normal. The value of skewness for institutional environment (COGNNIEV) is -0.451209. This value means that cognitive institutional environment (COGNNIEV) is negatively skewed, thus, indicating that the quality of cognitive institutional environment (COGNNIEV) has been decreasing within the time under consideration.

# CONCLUSION AND RECOMMENDATIONS

From the findings of the statistical results, the following conclusions can be drawn. The SMEs development is negatively skewed, thus, indicating that the growth and development of SMEs has not been quite impressive. This can be attributed the role of institutions in SMEs is also disappointing in some aspects. For instance, the value of skewness for normative institutional environment (NORMIEV) is -0.299847. This value means that institutional environment (NORMIEV) negative skewed, thus, indicating that the quality of normative institutional environment (NORMIEV) has been declining within the period under consideration. However, unlike the NORMIEV, the value of skewness for political institutional environment (POLINEV) is 2.283329. This value suggests that political institutional environment (POLINEV) is positively skewed, thus, indicating that the quality of political institutional environment (POLINEV) has been improving in its role in influencing SMEs. Although the statistical value of the regulatory institutional environment (REGUINEV) has not been impressive, it indicates the possibility of improvement in its futuristic role in SMEs. The legal institutional environment (LEGALIEV) is also negatively skewed, which is an indicative of an inferior outcome in its role in SMEs. The cognitive institutional environment (COGNNIEV) is also negatively skewed, thus, indicating that the quality of cognitive institutional environment (COGNNIEV) has been decreasing within the time under consideration. We conclude that SMEs growth and development in Nigeria is fairly conditioned by the institutional environment of the country.

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Based on the findings from the statistical analysis, the following recommendations are made:

- The study recommends that the quality of legal environment can be improved upon by setting up a panel to critically examine and sanction those judges lacking integrity and causing undue delay in justice delivery. This will help in ensuring that justice is provided by competent, independent, and ethical adjudicators.
- 2. We call upon the Government of Nigeria to commit reasonable resources in improving the quality of the regulatory environment across the nation with the aim of positively affecting SMEs.
- **3.** The quality inherent in the current political institutional environment in Nigeria should be improved upon in a way and manner that will positively affect the operations and growth of SMEs in the country.
- 4. The government of Nigeria through the ministry of education should direct all schools in Nigeria frequently and periodically engage in cognitive and psychological appraisal in such that students deficient in learning should be recommended for vocational trainings rather than forcing them to continue in the system through repetition. The government of Nigeria should also increase budgetary allocation to educational system to uplift the decaying infrastructures, develop a better curriculum, train and retrain teachers, expose students to network of entrepreneurs that will enrich them with all the information needed to develop market for the products and ideas generated. This will help to reposition quality of teaching, research and learning in the educational system toward job creation.
- 5. Lastly, we recommend that the Nigerian government should be determined in promoting moral, ethical and positive cultural norm in the country so as to lessen the negative effect of weak normative institutional environment on SMEs growth.

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