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## ***EDITOR'S NOTE***

The Editorial Board of Bayero Business Review (BBR) is delighted to publish Volume 6, Number 1 of the Journal which is domiciled in the Department of Business Administration and Entrepreneurship, Bayero University, Kano. BBR provides a platform for academics, policy makers and industrialists to extend the frontier of knowledge with regards to theory and practice in Management. To this end, the Journal publishes (bi-annually) original scholarly research underlined with sound academic prowess. The Journal's high quality is ensured by the efforts of our able members of the Editorial Board and also the critical paper reviewers.

The Editorial Board is further excited by the overwhelming response and submissions throughout the country. Thus, the Board appreciates the quality and academic excellence of the submissions. It is our pleasure to inform our audience that very soon the BBR will be available online and will be indexed in various Journal Databases in line with the international best practices.

On behalf of the Board of BBR, I sincerely appreciate the support and contributions of everyone who help in a way to seeing the success of our great Journal. Finally, we thank Allah in whose mercy good things are being accomplished.

**Associate Prof. Ahmad A. Maiyaki**

**Editor-in-Chief**

**Bayero University, Kano**

## Moderating Role of Transformational Leadership on the Relationship Between Entrepreneurial Orientation and SMEs Performance in Katsina State

By

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### Abstract

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*This study examined the effect of entrepreneurial orientation on the performance of SMEs with the moderating role of transformational leadership (TL) behavior. On the grounds of Resource-Based view and Dynamic Capability theory, cross-sectional research design was used to collect data from the respondents. The sample of the study consists of 194 manufacturing SMEs operating in Katsina state, Nigeria. A PLS-SEM approach was used with aid of SmartPLS 3.2.8 to analyse the data. The result showed that entrepreneurial orientation dimensions (innovativeness, proactiveness and risk taking) were significantly and positively related to the performance of SMEs in Katsina state. The result also indicated that transformational leadership strengthens the positive effect of proactiveness on SMEs performance; it was also revealed that TL weakens the relationship between risk taking and SMEs performance. Lastly, there was insignificant moderating effect of TL in the relationship between innovativeness and SMEs performance. This study recommends that owners/managers should continue to pursue creativity and innovativeness by being proactive and taking calculable risks in order to bring new offerings to the market thereby enjoying first mover advantage and subsequently increase their performance. The moderating effect of TL contributes to the resource-based view (RBV) and provides useful understandings to owner/managers of SMEs with regard to policy formulation and execution to improve the performance of business firms.*

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**Keywords:** Entrepreneurial Orientation, Transformational Leadership, Innovativeness, Proactiveness, Risk taking, Katsina State, Nigeria

### 1. Introduction

Small and Medium Enterprises (SMEs) are universally regarded as critical tools for economic growth, development and sustainability. SMEs also play an important role in many economies around the world as engines of socio-economic transformation, including industrialisation. They provide an important platform for enhancing technical,

technological, and entrepreneurial abilities among key groups of the population, as has been widely established. SMEs if properly managed, can also help to create jobs, wealth, and redistribute income within society (Small and Medium Enterprise Development Agency [SMEDAN] & National Bureau of Statistics [NBS], 2017).

The advancement of the SMEs sector is one approach to support countries in achieving their aim of fostering entrepreneurship as a vehicle for accelerating industrialisation, reducing unemployment, and achieving overall economic growth and development. The SME sector is regarded as the birthplace of entrepreneurship, with its efficiency, flexibility, individual inventiveness, and overall entrepreneurial spirit driving it. It is therefore a significant measure of an economy's overall performance, as it is responsible for the majority of the jobs created and employment opportunities (Shettima, 2019).

The Nigerian government has devised and executed several policies, programs, and institutions in recent decades in order to reap the benefits of SMEs, the most notable of which is the founding of SMEDAN. The Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB), currently known as the Bank of Agriculture (BOA), the National Economic and Reconstruction Fund (NERFUND), the Bank of Industry (BOI), and the Nigerian Export Import Bank (NEXIM BANK) are among the others. According to Aderinto et al. (2019), Nigerian government has also established policy-oriented organisations to provide technical and financial support to SMEs, such as the Small

and Medium Enterprise Equity Investment Scheme (SMEEIS) and National Enterprise Development Program (NEDEP). Other efforts include the establishment of MSME National and State Councils, Youth Enterprise with Innovation in Nigeria (YouWiN), the amended National MSMEs Policy, and other finance access provided by the Central Bank of Nigeria and other development banks (Duru, Ehidiemhem & Chijioko 2018).

Despite several government initiatives and programs targeted at developing the SMEs sub sector in Nigeria, SMEs have not fared admirably well, as they have not contributed substantially to the nation's economic growth (Taiwo & Falohun, 2016). Additionally, there is a deficiency in the performance of SMEs in influencing accelerate job creation and alleviating poverty in order to promote and advance the Nigeria's economy (Olubiyi, et al., 2019). However, in Nigeria, SMEs experience performance that is characterized by low market share, poor sales growth, and low capability to innovation due to the turbulent nature of the business environment, which is a result of the existing rapid and constant fluctuation in the global business environment, technological opportunities, changes in consumer needs and fiercely competitive activities (Aminu & Mahmood, 2015; Olubiyi, et al., 2019). Faced with

failure, SMEs must develop and implement strategies to survive and prosper in a constantly changing business environment. Entrepreneurial orientation (EO) is a critical concept in strategy formulation in the literature of entrepreneurship and strategic management, and has been identified as a factor affecting the performance of SMEs (Duru et al, 2018). As a result, it is projected that EO boosts the productivity of SMEs.

Despite the extensive research on the association between EO and SMEs performance, the findings of the investigations remain unclear and conflicting (Su et al., 2015; Luu & Ngo 2019). While some research (Neneh & Van Zyl, 2017; Soares & Perin, 2019; Wiklund & Shepherd, 2003) indicated a favorable link between EO and firm performance, others (Gupta & Wales 2017; Kusumawardhani & McCarthy, 2013; Moreno & Casillass, 2008) indicated a negative link. However, several studies (Arbaugh et al., 2009; Hughes & Morgan, 2007; Kosa et al., 2018; Putninš & Sauka, 2020) discovered inconsistent results in the EO – performance relationship. As a result, the findings are seen as contradictory, inconsistent, and inconclusive. According to Baron and Kenny (1986) cited in Kristaunga and Riorini (2019), moderator variables should be added if there is a weak or inconsistent link between a

predictor and an outcome variable. Similarly, Herath and Mahmood (2013) proposed including a moderator in strategic direction to the relationship between corporate performance and profitability. Numerous researches asserted that examining the effect of transformational leadership on EO implementation is critical for achieving performance (Adomako, 2018; Engelen et al., 2015; Muchiri & McMurray 2015; Rose & Mamabolo, 2019). Thus, investigating transformational leadership as a moderator in the effect of EO on SMEs performance may help close the highlighted knowledge gap and contribute to a better understanding of the direct and indirect linkages between the EO and firm performance amongst Nigerian SMEs.

Using organisational resource based view theory i.e (RBV) (Barney, 1991; Wernerfelt, 1984) and Dynamic capability View theory (DCV) (Teece et al., 1997) as a framework to investigate the influence of EO and transformational leadership on SMEs performance, the purpose of this research is to explore the moderating role of transformational leadership (TL) in the effect of EO on performance of SMEs.

## **2. Literature Review**

### **2.1 Small and Medium-Sized Enterprises (SMEs)**

There is no commonly agreed definition of a small business. There are two ways that are frequently used to define SMEs: quantitative and qualitative techniques (Berisha & Pula, 2015). Researchers and other interested parties examined the issue using a variety of specific criteria, including value added and asset value (Adebayo et al., 2013).

The World Bank defines SMEs as any small firm with more than ten employees but fewer than 300 employees and total assets of more than \$10,000 but less than \$15,000,000. (Berisha & Pula, 2015). Similarly, the African Development Bank's definition of a SME says that it is any small enterprise with fewer than 50 employees, while in Nigeria, the Central Bank of Nigeria (CBN) defined SMEs according to their total asset value and staff count (Chendo, 2013). Nonetheless, the National Council of Industries (2009) defines SMEs as a business enterprise having total cost of less than N200, 000,000, excluding land, and between 11 and 100 people (Aremu, 2011). Additionally, the Small and Medium Industries Equity Investment Scheme [SMIEIS] (2006), as cited in Abdullahi et al. (2015), defined SMEs as businesses with a total capital employed of less than one million

five hundred thousand Naira (N1, 500,000.00) but greater than two hundred million Naira (N200, 000,000.00), including working capital but excluding land costs, and with a workforce strength of not below ten (10) and not above three hundred (300). SMEDAN and NBS (2017) defined SMEs as follows: Small enterprises with 10 to 49 workers or annual revenue of N5 million to N50 million; and Medium-sized firms with 50 to 199 workers or annual revenue of N50 million to N500 million.

### **2.2 Concept of SMEs Performance**

SMEs performance is viewed as an important dependent variable by researchers in practically all fields of management (Richard et al., 2008), as it reflects firm's overall health (Obiwuru et al., 2011). Different authors approached the topic of firm performance from a variety of angles, and as a result, there is no consensus on a single definition. Therefore, the concept was defined differently by numerous authors. According to Olabisi et al., (2013), a firm's performance is defined by the firm's ability of providing acceptable outcomes and activities. According to Bature and Cheng (2017), firm performance is defined as the actual financial or non-financial results of a firm's attempts to achieve its declared goals and objectives.

According to Santos and Brito (2012), there are two techniques to measuring firm performance: one-dimensional and multi-dimensional techniques. According to them, one-dimensional view specifies that in all, the indicators illustrate the firm's performance in a nearly transposable manner, implying that all indications are interrelated. However, a multidimensional view implies that each dimension represents a distinct constituent of the firm's overall success and is reflected by a distinct set of indicators.

Kim (2006) stated that several scholarly works classified firm performance measurement as objective or subjective. The objective measures deal with financial statistics, whereas the subjective measurements evaluate respondents and focus on the organisation's overall performance. Whether objective or subjective performance measurements are used is determined by the researcher's preference and the study's objective (Singh, Darwish & Potocnick, 2016). Thus, this study uses subjective performance measurement indicators because researchers (Ghadas et al., 2015) claimed that subjective performance measures are superior to objective performance measures when evaluating the performance of SMEs.

### **2.3 Transformational Leadership Style**

According to Tarsik et al., (2014), transformational leadership style (TL) is exemplified by leaders who are motivated by the desire to bring out the best in their followers, hence increasing production and morale throughout the organisation. On that topic, the authors concluded that a transformational leadership style is a critical component for businesses seeking to reduce absenteeism, resistance to change, and unfavorable levels of turnover. Additionally, Kwasi (2015) defined transformational leadership as a leadership style in which a leader takes an inclusive approach to accomplishing goals. Transformational leaders are positive, enthusiastic, and place a premium on dedication to a common purpose (Lai, 2011). Lai et al., (2020) reported that Bass (1985) defined transformational leadership as a combination of five factors: inspiring motivation-charismatic influence, idealised influence, intellectual stimulation, and individualised concern.

Similarly, Gilbert et al., (2016) asserted that transformational leadership has five factors. The first is expressed in idealised influence or attributed charisma, which describes how followers perceive their leader, which influences their perceptions of the leader's confidence, power, and transcendent

aspirations. The second part is represented by idealized impact or charismatic conduct (i.e., the unique leader's behaviors that reflect his values, beliefs, sense of mission and purpose, and ethical and moral orientation). The third factor is inspirational motivation, which refers to a leader's ability to urge and inspire their followers to pursue ambitious goals, raise expectations, boost confidence, and nurture a sense of self-worth. The fourth factor is intellectual stimulation, which relates to how leaders question the current quo and appeal to their followers' brains. It is also the course of innovatively and creatively resolves problems. The individualised attention represents the fifth aspect, which deals with leaders who provide tailored socio-emotional support to their followers while also empowering and growing them. Thus, transformational leadership is suitable in this study due to its factors applicability in SME settings that motivates and guides subordinates to perform to their full potential and to build their confidence through consistent support (Engelen et al., 2015).

#### **2.4 Concept of Entrepreneurial Orientation**

EO has a foundation in strategy literature and is being used in strategic management to refer to the approach taken by businesses with entrepreneurial tendencies (Eggers et al.,

2013). Numerous studies were conducted on EO as an organisational approach (Fernández-Mesa & Alegre, 2015; Lomberg et al., 2017; Semrau et al., 2015). Additionally, it was discovered as a motivator for organisations to engage in entrepreneurial activity, resulting in extensive research in the field of entrepreneurship studies (Covin & Wales, 2012; Gupta & Wales 2017).

According to Wiklund and Shepherd (2005), EO is one of the components of an organisation's strategic orientation that focuses on certain characteristics of entrepreneurial decision-making styles, techniques, and activities. Entrepreneurial orientation means a business's proclivity for inventive, proactive, and risk-taking behavior so as to accomplish its stated goals (Covin & Wales, 2019). EO is a measure of a firm's entrepreneurialism, and it is among the few characteristics that firms can stably rely on (Semrau et al., 2015). As a result, EO is regarded as a critical variable in increasing business performance.

Despite widespread agreement on the influence of EO on firm performance, there are still some disagreements about the concept's definition and operationalisation (Lyon et al., 2000). Additionally, these authors maintained that previous researchers' conceptualisations implied that EO is a one-

dimensional concept (e.g., Miller, 1983). Similarly, Covin and Slevin (1989) viewed all three dimensions established by Miller (1983) as components of a unidimensional EO construct (i.e., innovation, risk-taking, and proactiveness). However, Lumpkin and Dess (1996) defined and operationalised EO as a multidimensional construct. According to their paradigm, EO is a multidimensional construct consisting of five aspects (innovation, proactiveness, risk-taking, competitive aggressiveness, and autonomy) that each has an impact on performance separately (Aminu, 2015). Lumpkin and Dess (2001) noted that many entrepreneurship researchers viewed all EO aspects as components of a single construct, they maintained that distinct dimensions of EO can be investigated individually for their effect on company performance. Additionally, these researchers maintained that the connection among each dimension and performance is context-dependent (Aminu, 2015).

Therefore in this study EO is conceptualised as having three primary dimensions: innovativeness, proactiveness, and risk-taking, as introduced by Miller (1983) and developed by Covin and Slevin (1989). Lumpkin and Dess (1996)'s two additional dimensions (competitive aggressiveness and autonomy) are excluded in this research

because Kuratko et al., (2005) argued that competitive aggressiveness shares the characteristics of proactiveness, whereas autonomy is viewed as a relative variable that enables entrepreneurialism and is closely related to proactiveness (Kreiser & Davis, 2010).

## **2.5 Entrepreneurial Orientation and SMEs Performance**

Scholars have demonstrated the critical role EO plays in enhancing firm performance (Covin, & Slevin 1988; Wiklund, & Shepherd 2005). Covin and Wales (2019) assert that managers with a higher EO will contribute to improved organisational performance. Firms that established a greater EO value over time looked to do better than competitors with the same EO value or a lower EO value. Because of the multidimensional nature of EO, researchers can examine its effect on company performance. While some researchers discovered a positive correlation concerning EO-firm performance, others did not (Kreiser & Davis, 2010; Wiklund & Shepherd, 2005).

### **2.5.1 Innovativeness and SMEs Performance**

The first EO dimension is innovativeness. It means the readiness to invest in creation of profitable new products, services, and processes (Certo et al., 2009; Lumpkin & Dess, 1996). It was argued that innovation is

critical to the development of corporate success since it promotes sustainability and growth (Fowowe, 2017) and can aid in firm success (Budiarto & Pramudiati, 2018). Numerous forms of inventive activities are connected to many aspects of performance. Financial and non-financial metrics can be used to determine the influence of innovativeness on corporate performance (Mashal, 2018).

*H<sub>01</sub>: Innovativeness has a significant effect on the performance of SMEs.*

### **2.5.2 Proactiveness and SMEs Performance**

Proactiveness is the second aspect of EO. It is defined by Lumpkin and Dess (1996) as enterprises' timely responsiveness to market needs or wants, and their generation of market opportunities. Proactivity as an aspect of entrepreneurial orientation refers to an opportunity-seeking and forward-looking posture that entails spending resources in anticipation of future demand and trends and then capitalising on these opportunities. Proactiveness enables SMEs to forecast future market needs and also to anticipate rival demands (Covin, & Slevin 1989).

Proactiveness, empirically, results in increased sales and staff growth, profitability, and product and customer performance (Baba & Elumalai, 2011). Researches on the influence of EO on firm performance found

that proactiveness has a significant favorable effect on the SMEs business performance (Akbar et al., 2020; Cannavale & Nadali, 2019; Ibrahim & Abu, 2020; Unver, 2016).

*H<sub>02</sub>: Proactiveness has significant effect on the performance of SMEs.*

### **2.5.3 Risk taking and SMEs Performance**

In this study, the third and last dimension of EO is risk taking. It is the business's willingness to chase chances with an uncertain outcome (Deakins & Freel, 2012). It requires behaving courageously in uncertain situations. Risk taking may also be defined as a company's management purposefully investing huge resources to initiatives in the expectation of significant returns, but it also entails higher chances of failure (Mahmoud & Hanafi, 2013). Previous studies (Haider et al., 2017; Lu & Zhang, 2016; Olaniran et al., 2016; Wang & Yen, 2012) proved that risk taking has an effect on firm performance.

*H<sub>03</sub>: Risk taking has significant effect on the performance of SMEs.*

## **2.6 Entrepreneurial Orientation, Transformational Leadership, and SMEs Performance**

The dynamic environment, which requires SME managers to be entrepreneurial, prompted a new strategic imperative to rethink leadership (Morrisette & Oberman 2013); in particular, transformational leadership has been shown to boost entrepreneurial activities

(Yang, 2008), particularly where SMEs serve as an impetus for the future and sustainability of large firms (Hamburg et al., 2013). As has been demonstrated in the research, the critical determinant of failure or success of SMEs is leadership (Quan, 2015). Transformational leadership presupposes an efficient synthesis of holistic and personal techniques so as to accomplish a group's common aims and desires and also to evaluate follower's motivation (Cheng & Sheu, 2017; Muralidharan & Pathak, 2018). Additionally, transformational style of leadership can significantly alter an organisation's strategy, vision, attitude, and culture through product and service innovation (Chen, 2017).

Transformational leaders foster innovation inside organisations and boost organisations' proclivity to innovate. The inspiring drive and intellectual stimulation of leaders are critical for organisations to innovate (Nardelli, 2017). Transformational leaders are proactive; they strive to be market leaders, they build environments rather than react passively, and they actively guide their organisations toward achieving their strategic goals and objectives

(Lopez-Cabrales et al., 2017). Numerous experts felt that transformational leaders bolster corporate organisations' risk-taking proclivity. Morrisette and Oberman (2013) argued in this direction that transformative leaders create a safe environment for followers to take risks. Numerous empirical studies also asserted that transformational leadership enhances an organisation's risk-taking capacity (Arham, 2014; Rose & Mamabolo, 2019). In light of these reasons, this study hypothesizes that:

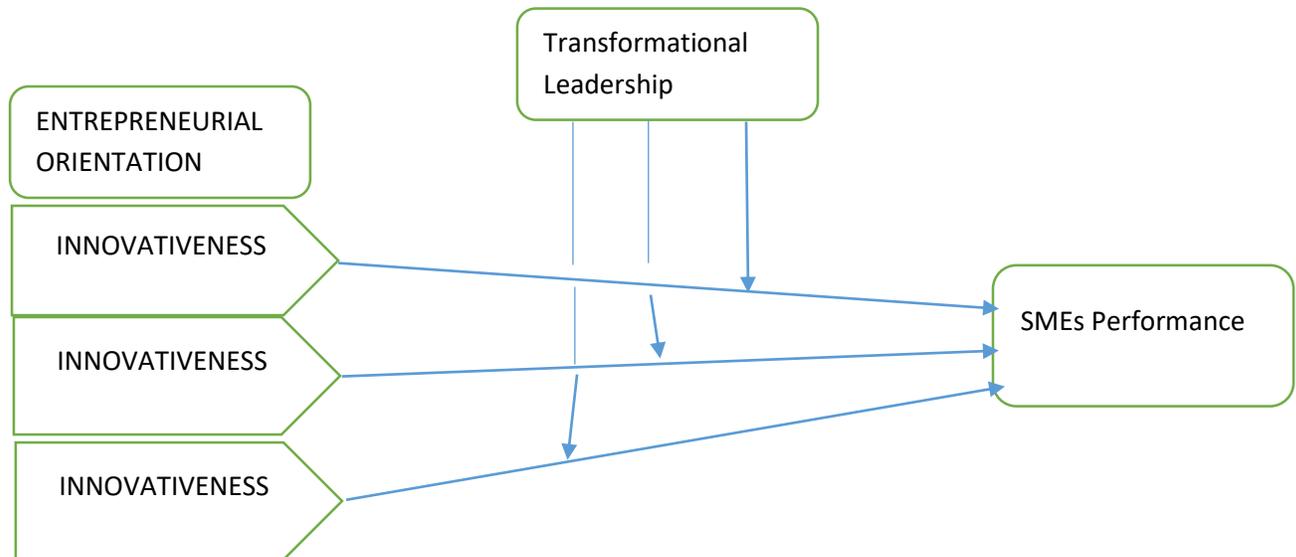
***H<sub>04</sub>**: Transformational leadership behavior moderates the influence of innovativeness on the performance of SMEs.*

***H<sub>05</sub>**: Transformational leadership behavior moderates the influence of proactiveness on the performance of SMEs.*

***H<sub>06</sub>**: Transformational leadership behavior moderates the influence of risk taking on the performance of SMEs.*

## **2.7 Proposed Research Framework**

Building on the foregoing discussion and literature review, this paper proposes a conceptual framework as depicted in Figure 1.



The framework for this research is depicted in Figure 1. The independent variables in this study are innovativeness, risk taking, and proactiveness, while firm performance is the dependent variable. Between the dependent and independent variables, transformational leadership acts as a moderating variable.

### 3. Methodological approach

#### 3.1 Sample selection

The present study purposively selected 231 manufacturing SMEs firms operating in Katsina state. The study received only 214 responses, out of which 20 were excluded due to missing values. This makes the final sample size 194 for the data analysis.

#### 3.2 Research design

The data were collected using the survey in this study. This study is quantitative in nature, and the primary data of the SMEs were collected through the distribution of questionnaire. The questionnaires were

distributed from first week of September 2021 to the last week of November 2021. The questionnaire and a cover letter mentioning the clear intention of the research and ensuring the respondents' confidentiality were administered to the respondents of the study.

#### 3.3 Measurement of variables

The questionnaire was divided into three parts. The first section of the questionnaire mentions the purpose of the study. The second section was related to the demographic profile of the respondents. The third section is related to constructs items. All the items of constructs were measured with a 5-point Likert scale. The instrument consists of previously established scales (Covin & Slevin, 1989; Miller, 1983; Matzler et al. 2008; Tan et al., 2007)

#### 3.4 Instrument validation

To ensure content validity, the instrument was evaluated by five academic experts in the field

of strategic management. They suggested minor changes in the structure, layout and sentences of the items. Further, a pilot study was conducted on 30 managers working at various SMEs in Katsina state

**4. Results and Data Analysis**

For the data analysis in this work, structural equation modeling using partial least squares (PLS) was used. PLS is a non-parametric tool for small sample sizes that does not require the

analysis to be based on the assumption of data normality (Hair et al., 2014). Version 3.2 of the Partial Least Square (PLS) program was used in this work to evaluate the measurement and structural models. PLS is a good technique since it investigates several relationships between the components at once (Hair et al., 2014). The 5000 bootstrapping approach was utilised in this study to test the hypotheses that were put forth.

**Table 1. : Testing convergent validity and composite reliability**

Variables	Items loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
<b>Performance</b>		<b>0.888</b>	<b>0.918</b>	<b>0.691</b>
	0.810			
	0.802			
	0.872			
	0.867			
	0.803			
<b>Innovativeness</b>		<b>0.902</b>	<b>0.938</b>	<b>0.836</b>
	0.927			
	0.916			
	0.900			
<b>Proactiveness</b>		<b>0.768</b>	<b>0.867</b>	<b>0.687</b>
	0.861			
	0.892			
	0.724			
<b>Risk Taking</b>		<b>0.891</b>	<b>0.932</b>	<b>0.821</b>
	0.914			
	0.917			
	0.888			
<b>Transform Leadership</b>		<b>0.913</b>	<b>0.928</b>	<b>0.616</b>
	0.789			
	0.793			
	0.811			
	0.773			
	0.813			
	0.686			
	0.806			
	0.801			

**Table 2: Measurement Model: Discriminant Validity using Fornell-Larcker Criterion (n=194)**

Variables	Innovate	PF	ProAc	RiskTk	TL
Innovate	<b>0.914</b>				
PF	0.237	<b>0.831</b>			
ProAc	0.106	0.442	<b>0.829</b>		
RiskTk	0.227	0.478	0.219	<b>0.906</b>	
TL	0.171	0.169	0.073	-0.043	<b>0.785</b>

**Note:** Diagonal elements (figures in bold) are the square root of the variance (AVE) shared between the constructs and their measures. Off diagonal elements are the correlations among constructs

**Table 3: Discriminant Validity Using HTMT**

Variables	Innovate	PF	ProAc	RiskTk	TL
Innovate					
PF	0.271				
ProAc	0.124	0.534			
RiskTk	0.249	0.526	0.264		
TL	0.184	0.178	0.101	0.093	

Reliability is the internal consistency of the data, and in this study, it was assessed through Cronbach’s alpha and composite reliability values. The reliability values are shown in Table 2. According to Hair et al. (2014), reliability is established when the values of Cronbach alpha and composite reliability exceed 0.70. Table 2 depicted that reliability values are above 0.70, thus confirms internal consistency in the data. Further, Table 2 showed the values of average variance extracted (AVE). The values of AVE above 0.50 represent the presence of convergent validity. Convergent validity is the extent to which constructs are related to each other. In this study, convergent validity is assured as

the values fall between 0.519 and 0.773, as shown in Table 2.

Further, the assessment of discriminant validity was done through two methods proposed by Fornell & Larcker’s (1981) criterion and Heterotrait–Monotrait (HTMT). Discriminant validity is the extent to which constructs in the study are unrelated to each other. The diagonal values in Table 3 are the square root of AVEs, and they are more significant than their corresponding correlation values (Farrell, 2010), confirming discriminant validity through Fornell & Larcker’s (1981) criterion. Based on the traditional discriminant analysis (Fornell & Larcker’s) and more comprehensive

discriminant analyses (HTMT), it is acceptable to claim that the discriminant validity is well established as the reflective

latent constructs of this study have discriminant validity either as a criterion or as a statistical inference with any other construct.

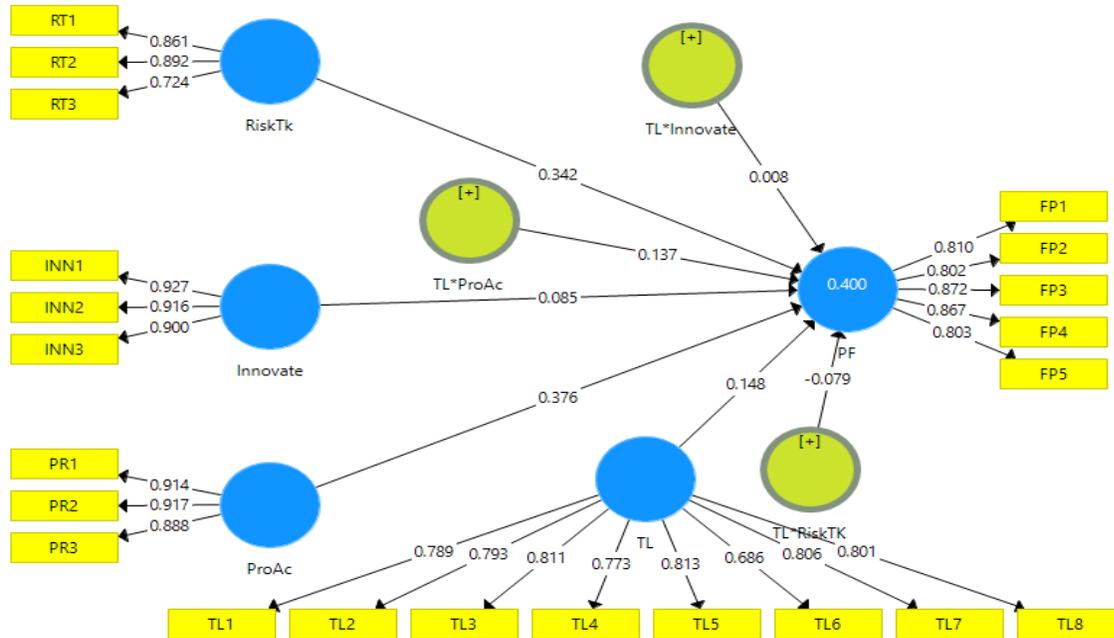


Figure 4.2: Measurement Model (PLS Algorithm)

#### 4.1 Analysis

PLS-SEM has been used for testing the proposed hypotheses. Model fit was assessed through the value of cross-validated redundancy ( $Q^2$ ) and R-square ( $R^2$ ). The value of  $Q^2$  for endogenous constructs indicates predictive relevance. In this study, the value of  $Q^2$  is 27%, indicating the model's predictive relevance. Besides, the value of R-square ( $R^2$ ) has been considered for the predictive accuracy of the model. The value of  $R^2$  40% represents the predictive accuracy of the model and depicts total variance explained by

exogenous constructs on endogenous constructs (Hair et al., 2014; Henseler et al., 2009). Further, path coefficients, p-values and t-values were used to assess the relationship among variables. Path coefficients values near +1 indicate high and strong effects, and p-values less than 0.05 and t-values greater than 1.96 refer to the acceptance of hypotheses. In this study, the conceptual model contains three hypotheses for direct relationships and three hypotheses for indirect relationships.

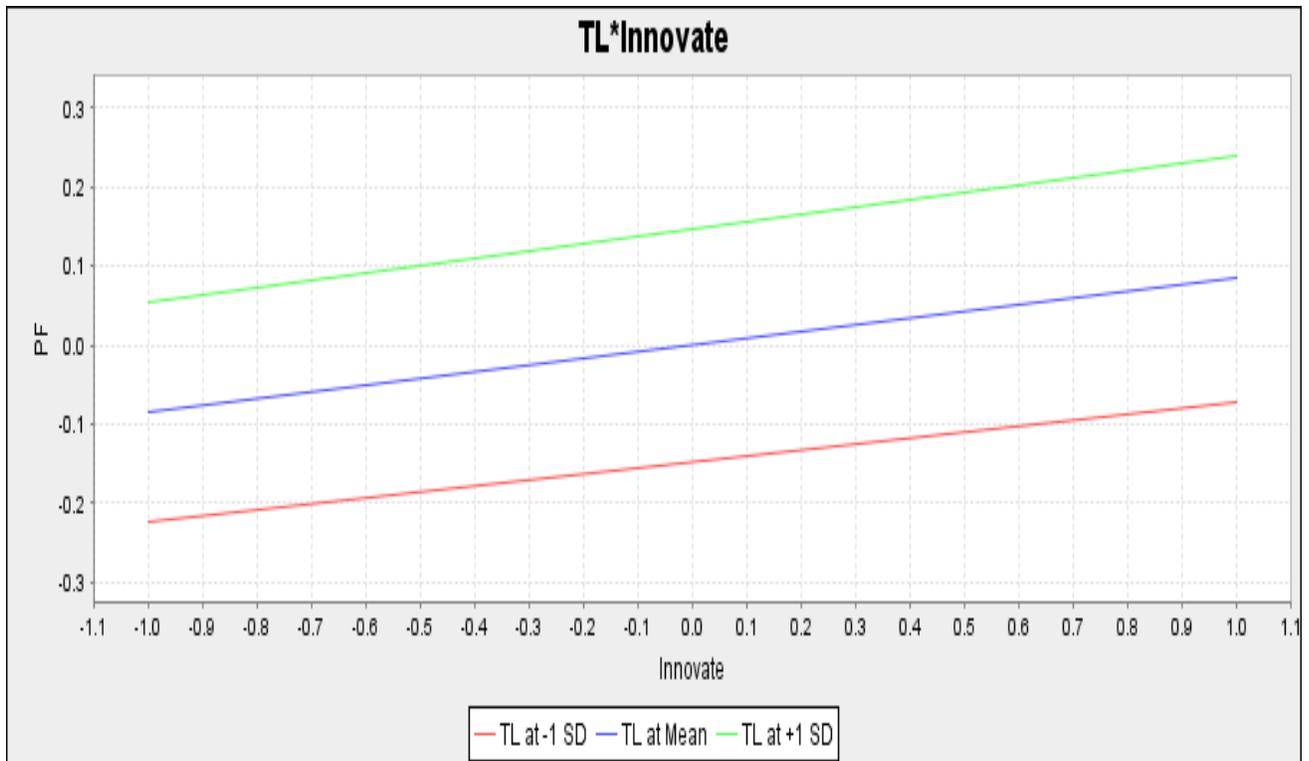
The results of direct and indirect path analysis were summarized in Table 6. The direct effect results show that innovativeness has positive impact on the performance of SMEs ( $\beta=0.085$ ,  $t=2.078$ ,  $p < 0.05$ ), supporting H1. The positive influence of proactiveness on SMEs performance was also confirmed ( $\beta=0.376$ ,  $t=8.547$ ,  $p < 0.01$ ), supporting H2. The positive impact of risk taking on SMEs performance was confirmed ( $\beta=0.342$ ,  $t=8.542$ ,  $p < 0.01$ ), supporting H3. The result for the indirect relationship which measures the moderation effect of TL in the relationship between the EO dimensions and Firm performance

produced inconsistent results. First TL strengthens the relationship between Proactiveness and firm performance ( $\beta=0.137$ ,  $t=3.292$ ,  $p < 0.05$ ), secondly TL does not moderate the relationship between innovativeness and firm performance ( $\beta=0.008$ ,  $t=0.203$ ,  $p > 0.05$ ), and finally, TL weakens the relationship between risk taking and firm performance ( $\beta= -0.079$ ,  $t=2.033$ ,  $p < 0.05$ ), by altering the direction of the relationship. Figure 1, 2 and 3 (Moderation interaction simple slopes) confirmed these findings further.

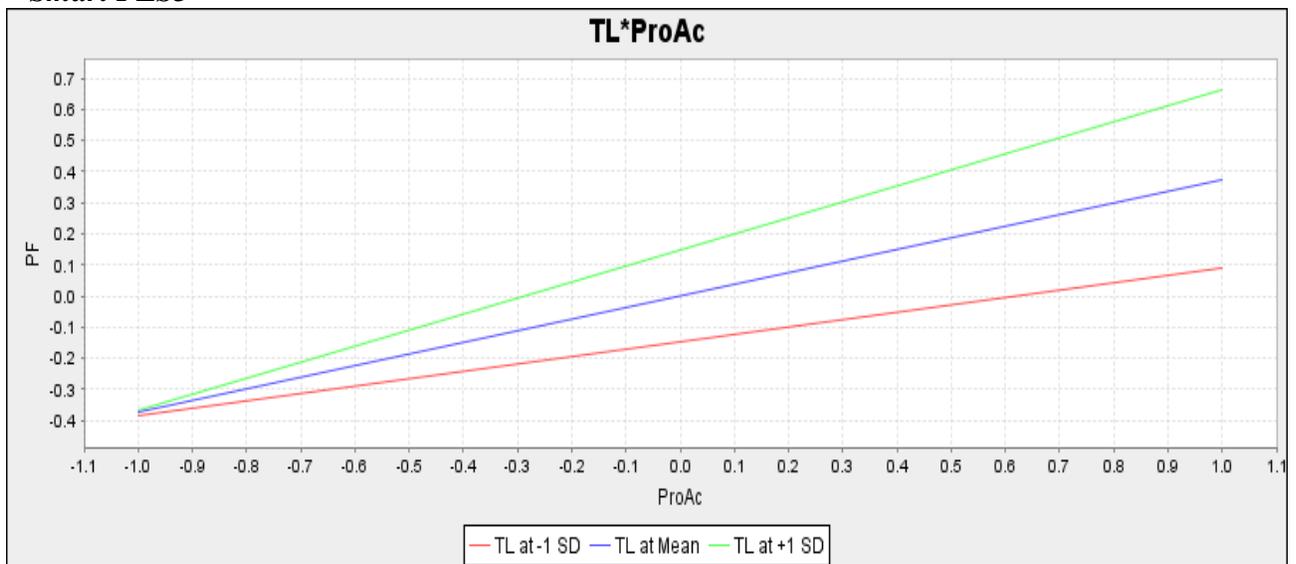
**Table 5: Size and Significance of Path Coefficients**

Hypotheses	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Decision
Innovate -> PF	0.085	0.041	2.078	0.038	Accept
ProAc -> PF	0.376	0.044	8.547	0.000	Accept
RiskTk -> PF	0.342	0.040	8.542	0.000	Accept
TL*Innovate -> PF	0.008	0.040	0.203	0.839	Failed
TL*ProAc -> PF	0.137	0.041	3.292	0.001	Reject
TL*RiskTK -> PF	-0.079	0.039	2.033	0.043	Failed

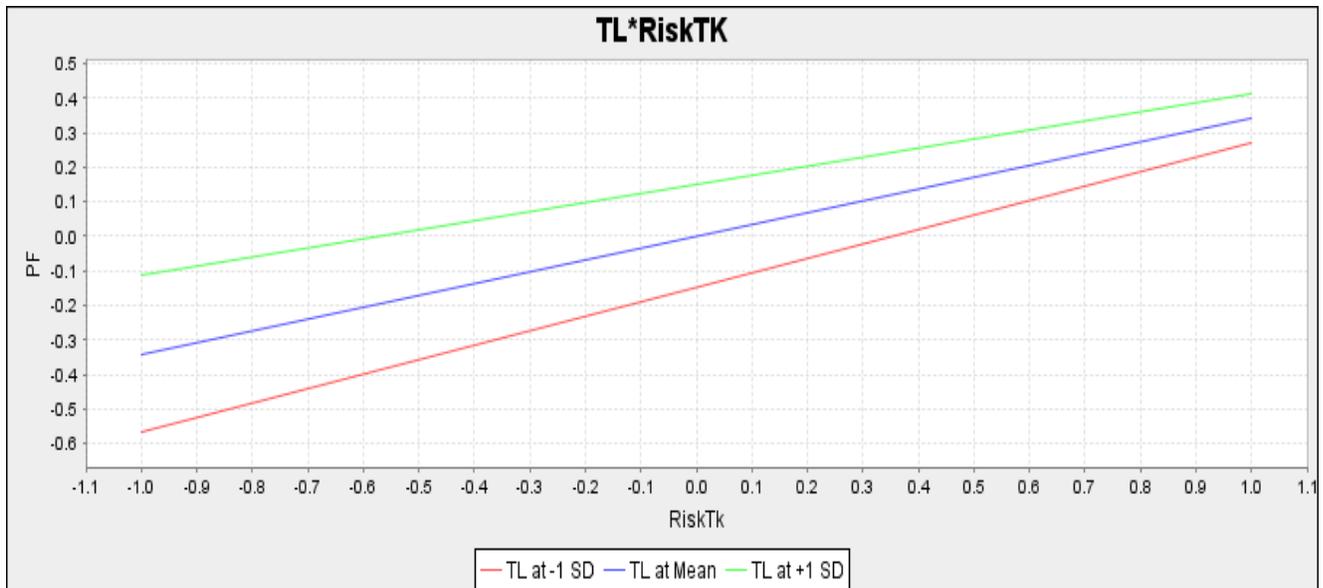
**Figure 1: Simple slope plot for the interaction effect of TL on Innovate and Performance of Firms – Smart PLS3**



**Figure 2:** Simple slope plot for the interaction effect of TL on ProAc and Performance of Firms – Smart PLS3



**Figure 3:** Simple slope plot for the interaction effect of TL on RiskTk and Performance of Firms – Smart PLS3



### 5 Discussion and conclusion

This study is based on resource-based view (RBV) theory to assess the SMEs' performance. Resource-based view theory argues that firm capabilities lead to better performance and create a competitive advantage. In this study, innovativeness, proactiveness, risk-taking and transformational leadership style are taken as internal resources of a firm that drive performance. It can be understood from the literature that innovativeness, proactive and risk-taking are important dimensions of entrepreneurial orientation (Covin & Wales, 2019; Wiklund & Shepherd, 2005; Shah et al., 2019; Mahmood & Hanafi, 2013; Lumpkin & Dess, 1996; Kusa, 2020). This study contributes to literature of entrepreneurship

and SMEs by incorporating the moderation effect of transformational leadership in the context of manufacturing SMEs in Katsina state.

The findings of this study reveal that the firm innovative approach has a positive influence on firm performance, which is in line with the findings of Arham (2014) which suggested that TL plays an important role between entrepreneurial orientation and firm performance. Organisational risk-taking has a positive influence on firm performance; this is consistent with the findings of Chen et al. (2017); their study argues that the risk-taking propensity of the organisation increases firm performance. The positive influence of proactiveness on firm performance was also proved in this study, which matches with the

findings of past studies (Chen et al., 2017; Wang, 2008). The recent studies also confirmed the positive influence of proactiveness on firm performance (Mahmood & Hanafi, 2013; Covin & Wales., 2019). Furthermore, the findings reveal that TL as a moderator variable strengthens the relationship between proactiveness and firm performance, which is consistent with past studies (Rose & Mamabolo, 2019; Arham, 2014). The study's findings are also consistent with earlier research by Hayat and Riaz (2011), Matzler et al., (2008). The same conclusion was reached by Matzler et al, (2008) and Ling et al. (2008) that TL style is crucial for SMEs' performance. According to Engelen, et al. (2015), TL also has a moderating effect on the link between EO and firm performance. According to Arham et al. (2013), TL is necessary for SMEs to operate at their peak efficiency. Chen (2004), Soriano and Martinez (2007), Wang and Poutziouris (2010), Kang et al. (2010), Bhattacharyya (2006), Todorovic and Schlosser (2010) all came to the same conclusions.

Given the outcome of this study, the researchers at this juncture, concluded that firm performance is predicted by proactiveness, risk taking and innovativeness. The study also concludes that transformational leadership behaviour moderates the

relationship between firm performance and proactiveness and so also between risk taking and SMEs performance. However, transformational leadership behaviour does not act as a moderator between innovativeness and firm performance. The study concludes that transformational leadership behavior is a moderator in the relationship between proactiveness and risk taking, and SMEs performance. Hence, in order for business enterprises to benefit from superior performance, emphasis should be attached to proactiveness and risk taking.

### **8 Limitations and future Research**

This study presented a unique framework by including transformational leadership as an internal organisational resource that creates a competitive edge for SMEs in Katsina state. However, there are several limitations in this study that need to be addressed in future studies. First, the study assessed firm performance using subjective criteria. Such subjective measures may skew performance evaluations (Fayaz, 2019). In the future, researchers may evaluate firm performance using objective measures such as accounting performance. Second, the study used a cross-sectional research design with data collected all at once. As a result, the researcher cannot draw causal conclusions from such research. In the future, researchers may be able to

circumvent this limitation by employing a longitudinal research design that collects data from both the dependent and independent variables at two or more points in time.

Third, the study collated data from the owners of SMEs which may limit researchers' ability to generalise their findings. It is also suggested that future research look into the EO, leadership, and performance of SME leaders from the employees' point of view. A comparison study of EO, firm performance, and effective leadership results obtained from

the leaders themselves and employees' perceptions may result in a better understanding of how SMEs' performance can be improved further. Finally, the research was carried out in Katsina state, Northwestern Nigeria. Researchers may replicate the same findings in other regions or geo-political zones of Nigeria in the future.

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## Effects of Trade Informality and Entrepreneurial Orientation on SMEs' Performance in Adamawa and Cameroon Border Areas.

By

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### Abstract

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*The aim of this study is to find out how small and medium enterprises performances are impacted by entrepreneurs' ability to recognise business opportunities and prefer to trade informally around Adamawa state border communities with Cameroon Republic. Previous studies on cross border business were extensively reviewed for better understanding of this study. There was considerable interest on studies in border SMEs, however, few studies were conducted on Adamawa state and Cameroon. Mubi, Sahuda and Belel borders in Adamawa state were noted to be a gateway for livestock, cowpea, sesame and grains supplied to all parts of Nigeria. Notwithstanding, this performance was negatively impacted by trade informality, opportunity recognition, start-up motive, community norms and entrepreneurial orientation, among others. The study used conceptual review method, and a proposed model was developed to examine the relationship between the variables under study. Literature reviewed revealed a differing significance of trade informality: opportunity recognition, start-up motive, community norms and entrepreneurial orientation on the performance of border SMEs. This study suggests an empirical investigation on the effects of trade informality and entrepreneurial orientation using trust as a moderator.*

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Key words: Trade Informality, Entrepreneurial Orientation, Trust, SMEs Performance

### 1.0 Background to the Study

For decades, small and medium enterprises worldwide have been reckoned to provide job opportunities for many people in an economy. Unemployment scenarios have become a global phenomenon leading to motivation for creating small and medium enterprises (SMEs) globally (Bushe, 2019). Global statistics acknowledged that small businesses are key providers of employment (Oluyemi & Ayodele, 2021) in the United State of America (USA), small businesses accounted for 64 percent of new jobs created between 1993 and 2011 (Aribaba, Oladele, Ahmodu & Yusuf,

2019). In the emerging market, 7 out of 10 new jobs are created by small businesses (World Bank, 2015). The Organisation for Economic Co-operation and Development (OECD) nations provided that small business account for 60-70 percent of jobs created annually (OECD, 2015). The employment creation potentials of small businesses in Sub-Saharan Africa have also been acknowledged. In Kenya, Zambia, Ivory Coast, South Africa, Cameroon, etc. small business account for 38 percent, 37 percent, 33 percent, 21 percent and 19 percent of the new jobs created respectively

(World Bank, 2018). In Nigeria, the National Bureau of Statistics (2019) revealed that small and medium enterprise provides 3 million jobs.

Numerous people living in border communities largely depend on cross border small and medium enterprises to earn a living (Bashir & Deepali, 2022). In 2020, the contribution of trading to Nigeria's Gross Domestic Product (GDP) was valued at 2.5 percent to total trade (Central Bank of Nigeria, 2020). Cross Border SMEs are market based exchange of goods and services across national boundaries and contribute substantial portion of economic activity, job creation, innovation, centralizations, globalization, brokerage, income and poverty reduction (Koroma Joan, You, victor & Boniface, 2017; Vanessa, Willson & Samuel, 2018; Eldrede & Djavlonbek, 2020; Michael, Zaheer & Garry, 2020; Herring & Chinyamurindi, 2022).

The challenges to border SMEs performance along the North East are: traders trading informally, poor entrepreneurial orientation, border regulations, poor financial management among operators, poor infrastructure, inflation and market efficiency (Shepherd, 2016, Sakyi, Bonuedi & Opoku, 2018; Omodele, 2021; National Bureau of Statistics, March 2021). The United Nation Conference on Trade and Development Fund for Women

(DFW) (2018) found that informality in trade breeds corruption due to non-declaration of imported products and non-payment of taxes and duties. Afrika and Ajumbo (2012) noted that goods traded informally are risky and hazardous as they are not being subjected to standard health and hygiene measures. Jean-guy and Herald (2012) viewed that most traders at the border business have no education, raise limited capital from their resources and lack bankable orientations as well as not having valid travel documents therefore always prefer to trade informally.

Cross border SMEs' performance along Adamawa and Cameroon border is an issue of serious concern and evidences proved that there is a persistent slowdown in the trading activities among cross border business operators. Central Bank of Nigeria (2019) confirmed that cross border SMEs' performance is on the decline. National Bureau of Statistics (2021) reported that total trade in Nigeria was 8.9 percent higher in Quarter 4, 2020 compared to Quarter 3, 2020, but 9.9 percent lower than the value recorded in Quarter 4 2019 while, on an annual basis, total trade was 10.3 percent lower in 2020 than the value recorded in 2019. The Director General of SMEDAN reported that the contribution of Small and Medium Enterprises to Gross Domestic Product dipped by 3.5

percent in 2021 against 2020 and accounted for only 6.2 percent to external trade (Daily Trust Newspaper 14th April, 2022).

### **1.1 Problem Statement**

The slowdown in the performance of SMEs at Cross Border Business in Nigeria is an issue of serious concern to all Nigerians (Oluyemi, 2021). Central Bank of Nigeria (2019) reported that Cross Border SMEs performance is on the decline which is unconnected with cultural orientation of entrepreneurs and domestic policy uncertainty. Eldrede and Djarvlonbenk (2020) highlighted that the challenges which the Cross Border SMEs face is due to the xenophobic barriers Africa has towards other nationals. Cross Border SMEs' performance in Nigeria is fluctuating at 4.5 percent, 0.2 percent, 1.1 percent, 0.6 percent and 0.4 percent due to entrepreneurial orientation and trade policies of countries (Central Bank of Nigeria, 2019 and 2020). Annual comparison showed that total trade was 57.60 percent higher in 2021 than the value recorded in 2020 even though it is still negative (NBS, 2022). The 2017 survey by SMEDAN showed that Micro, Small and Medium Enterprise (MSME) in the country were 41,543,023 million while 2020 survey indicated a decline by 3.5 percent with a total of 39,654,385 Small and Medium Enterprise

Development Agency in Nigeria, (SMEDAN) (2022). However, worthy of concern since independence, Nigeria and Cameroon have been engaging in bilateral agreements to promote business and cooperation including cultural exchanges, yet little has been achieved in terms of Cross Border Business (Bonchuk, 2014).

The report in the above situation indicated that the non-performance of Cross Border Business has resulted to loss of market, closure of companies, unemployment, poor entrepreneurial activities and the entire Nigerian economy. Adamawa state border has been a gate way for the flow of livestock, cowpea, cotton, sesame etc. to all parts of Nigeria. However, this flow of business is impacted by ability to recognize opportunity, motive for startup and community norms (Boris, Robert & Gordon, 2011). Also, traders not willing to formalise trade, level of trust and orientations of the SMEs operators (Kehinde & Mathew, 2021).

Lack of studies as well as adequate policy measures to address the informal practices among SMEs operators around the border areas may result to obligation failures among partners, loss of market and promotion of illegal businesses. Therefore, the reduction in the performance SMEs around the Adamawa and Cameroon border is an issue of concern

that requires both theoretical and practical justifications to mitigate the problem. Hence, the need for an empirical study considering the role the sector plays towards food security, small and medium enterprise growth, employment and sustainable economic development of Nigeria.

## **2.0 Review of Literature**

### **2.1 The Concept of SMEs**

Small and Medium Enterprise (SME) is an enterprise with a maximum assets base of 500 million naira excluding land and working capital, and with a staff strength of not less than 10 and not more than 300 workers (Daniel, Olusala, Mercy, Joseph & Oluwa tosin, 2020). SMEs is a convenient term for segmenting business and other organisations that are somewhere between the small office-home office and larger enterprise. Ocampo et al. (2019) explained Enterprise as a firms' handling capacity of external element which are characterized by the market position, customer's satisfaction, market development and profitability. Porter (2008) argued for the variations in performance due to unique, well aligned and valuable activities. In contrast, Barney (1991) observed that it is resources that distinguish top performers from the rest. However, most scholars support that both perspectives provide acceptable justification

for the variations in business performance (Gaya & Struwing, 2016).

### **2.2 The Concept of SMEs' Performance**

Measuring performance is a vital part of monitoring growth of business in terms of profitability, growth and customer's loyalty against the intended goals. This study is aimed at examining the effects of Trade informality and the orientation of SMEs operators around Adamawa and Cameroon borders. Zulkiffli and Perera (2011) identified subjective and objective measure of business performance. Subjective measure is the use of comparison as a basis while objective relies on quantitative data to determine changes. Many studies show preference for subjective measurement during the assessment of business performance due to difficulties in obtaining objective financial data (Wall et al, 2004; Gruber et al, 2010). This study intends to use subjective measure, because it allows comparison across firms and context such as industry type, and time horizon (Song et al, 2005). Deodat, Moh'd juma, Ali, and Hasan (2021) viewed enterprise performance in terms of dominance in the market share, customer's satisfaction and financial profitability. It can be concluded that enterprise performance can be attributed to not only quality improvement and customer's satisfaction but also a deliberate effort to increase profit level and business expansion.

### **2.3 The Concept of Trade informality**

Informal trade constitutes a significant economic force in terms of the value of goods traded and those who involve in it as a source of employment. According to the World Bank (2021), informal trade is an unorganized small scale trade which does not appear in custom record. SME activities are facing downturn at the border areas because of informality in their operations (Verdier, 2010). Informal trade is often characterized by unregistered traders who operate business with no formal documents (Tayo & Emmanuel, 2017). Informal trades cut across all ages, ethnic groups, religion and gender. SMEs at the border are blend of informality with economic life totally informal, unmeasured and operating outside the framework of unclear data (Bashir & deepali, 2022).

Informality is seen as pervasive and wide spread in Sub-Saharan African and is mostly due to formal market shortages practiced by women (Kunal, Michael & Simone, 2022). World Bank (2021) defined informality to mean lack of firm registration, lack of social security coverage or lack of an employment contract. Churchiu and Dangush (2022) added that in addition to economic and institutional factors, socio-cultural factors also play an important role in explaining the prevalence of informality in SMEs. Informal trade across

borders is mostly illegal, through illegal goods but because it unrecorded or incorrectly recorded by public authorities and partly evade trade-related regulations and duties (Hannah, 2017). Informal trade does not necessarily consist of micro and small traders only but also big firms that give wrong size and records of their transactions to avoid custom duties and taxes (Ahmodu, Ismail & Dosunoonu, 2020). The push and pull causes of Informal Trade at the border are to reduce trading costs, time saving and avoidance of regulating hurdles. Hernandez (2022) attributed lack of preferable opportunities in the formal market makes people to voluntarily engage in informal SMEs. The lack of social protection for cross border SMEs reveals a negative side of informality (Malungisa, 2015).

Ahmodu, Ismail and Dosunanu (2020) attributed high profit margin in business activities and wide difference in exchange rate of Nigeria as factors encouraging informal trade between Nigeria and Niger. Different manifestations of informality in SMEs activities are pervasive within the border regions under study. Vanessa, Wilson and Samuel (2018) reported that intermediaries known as 'shata men' serve as brokers between SMEs operations and customs officials which encourage informal or

unofficial documentations and payments; thus, incentives for informal extraction from traders are amplified. SMEs operations at the borders often have security and safety concern, and thus contribute to informal operations (Poorva, Bruce, Philomena & Mouhirou, 2021). Predominance of cash based transaction make traders vulnerable as they must depend on the informal exchange market, as well as security risks associated with cash (Afrexim Bank, 2020).

Jean-Guy and Gerald (2012) highlighted factors encouraging informal border SMEs in Africa to include: lack of trade facilitation, inadequate border infrastructure, limited access to finance, limited market information, corruption and insecurity limited knowledge, education and business management skills. Informal trade is termed in a wide range of business varying by age and size. Behavioral skills determine the traders' ability to recognized opportunity, embark on new start-up and influence the community norms (Boris, Robert & Gordon, 2011). Traders' mindsets have been described as the ability to sense, act and mobilize within a changing environment. Exploiting business opportunities requires the understanding of the entrepreneurial mindsets (Boris, Robert & Gordon, 2011). Opportunity recognition process represents one of the core intellectual questions for the domain of

informal trade (Haglio & Katz, 2001). Such important questions are personal motive which affect both start-up decision and process. Several studies focus on aspect of entrepreneur motivation in relation to starting up a venture (Drnovsek & Glas, 2002, Douglas & Shepherd, 2022).

Investigating opportunity recognition and motives for start-up are important as entrepreneur activities are rooted in a cultural and societal norm (Boris, Robert & Gordon, 2011). If entrepreneurship is not valued in a community, informality in business are sustained with criminality and corruption, thus other forms of economic encouragement prove to be ineffective (Baumol, 1990). Boris, Robert & Gordon (2011) operationalized in their study of opportunity recognition behaviors of informal traders' three variables which include: opportunity recognition, motive for start-up and community norms.

#### **2.4 The Concept of Entrepreneurial Orientation**

Wikilund and Shepherd (2005) described entrepreneurial orientation as a formal strategic orientation capturing specific entrepreneurial aspects of decision making styles methods and practices. Entrepreneurial orientation is formed by many authors in terms of behavior and business practices. Lumpkin and Dess (1986) viewed the concept as the

methods, practices and decision making styles used by business proprietors. Ogunsiji (2002) considered it as the ability of the business proprietor to identify investment opportunity. Entrepreneurial orientation is an important tool to achieve competitive advantage and increase the maximum profit of a firm. Miller (1997) looked at entrepreneurial orientation based on dimensions to include: being proactive, innovative and having propensity to take risk.

Border entrepreneurial activities include a wide range of different types of entrepreneurship from informal petty trading to formalize partnership and strategic alliance between enterprises. Common features of border entrepreneurship activities among entrepreneurs in developing countries are: petty trading, driver by sole proprietorship, motivation and nascent entrepreneurs with motivation, drive and resourcefulness (David & Frederick, 2012). Informal strategic position in market showed considerable inventiveness and alertness to recognize opportunities. The strive for opportunity helps the entrepreneurs to build up their knowledge and capital and thus enables them to engage in more formalized border SMEs in future (Welter, Smallborne, 2009; Williams, Round & Rodgers, 2010).

## **2.5 Empirical Review**

Conceptual arguments supporting the relationship between trade informality, entrepreneurial orientations and SMEs' performance are based on the varieties of informal practices that govern the day to day activities of the operators of SMEs at the borders (Timmis, 2017, Hoffman & paul, 2018; Niba, 2019; Ahmodu & Dasunmu, 2020; Olakunle, 2021). Empirical evidence on opportunity recognition behavior of informal traders in South Africa by Boris, Robert, and Gordon (2011) found a positive relationship between business opportunity recognition, independent motive for startup as well as community norms. However, experience in new venture, need to make a living and negative sentiment were found to be negative. Several recent studies have focused on these informal business practices such as not documenting agreements, not recording trade and trade bypass in the context of cross border trade and implication for state authority in border regions (Raeymaekers, 2016). Vanessa, Wilson and Samuel (2018) in an empirical study on understanding informal payments and brokerage in cross border trade in Sierra Leone found that informal payments and practices among SME operators at border is a factor for concern as it lowers down the level of trust and confidence among business

partners. Similarly, a study was conducted by Olakunle (2021) on Nigeria southern borders which used a sample of 101 respondents drawn from six different professions, multiple regression and Pearson product moment correlation coefficient analysis. The study revealed that informal trade has a negative relationship with standard of living in Nigeria. It concluded that the economic consequences of informal cross border trade in Nigeria are very grave as they negatively affect the value of Naira. However, the study fails to recognize the contribution of informal SMEs in terms of employment creation, innovations and pro-activeness to opportunities of the business operators.

A study of Nigeria and Niger SMEs at cross border trade revealed a significant relationship between informal practices and SMEs performance (Ahmodu & Dosunmu, 2020). Many empirical evidences support the view that informal trade has a positive influence on SMEs' performance in border areas (Tayo & Emmanuel, 2017; Eldrede & Djarlonke, 2020; Isah, Christiana & Lotsmort, 2021; Kunal, Micheal & Simon, 2022). Arlette (2019) used a World Bank Enterprise Survey from over 127 countries and found a negative association between informal sector and firms' productivity. This view is supported by Hanna and Finn (2022) who in a survey study of

informality and firm performance in Myanmar observed that high taxes and fees linked to formalization of trade is often a motivational factor for SMEs operators to prefer informal trade to formal trade. Empirical evidence revealed that the key drivers of informality in Nigeria include: entrepreneurial orientation, weak competitive position, trust etc. that negatively impact on SMEs performance (Aliyu & Rosli, 2014; Tonuchi & Daniel, 2020; Tayo & Emmanuel 2017; Thang & Thanh, 2020; Poorva, Brue, Philomena & Mounirou, 2021; Herring & Butterworth, 2022).

Entrepreneurial activities include a wide range of different types of entrepreneurship, from informal petty trading to formalized joint ventures and strategic alliance between enterprise (David & Frederike, 2012; Shettima, 2017; Buba & Muhammad, 2022). Research on entrepreneurial behavior identified the following as factors that constitute entrepreneurial orientation constructs: innovations, risk taking (Lan & Wu, 2010) and innovation risk taking and pro-activeness (Covin & Slevin, 1991). Some traits that have been associated with successful entrepreneurs in literature include high need for achievement, propensity for risk taking, and internal locus of control (McClelland, 1987; Miller, 1997). Entrepreneurial orientation is multidimensional in

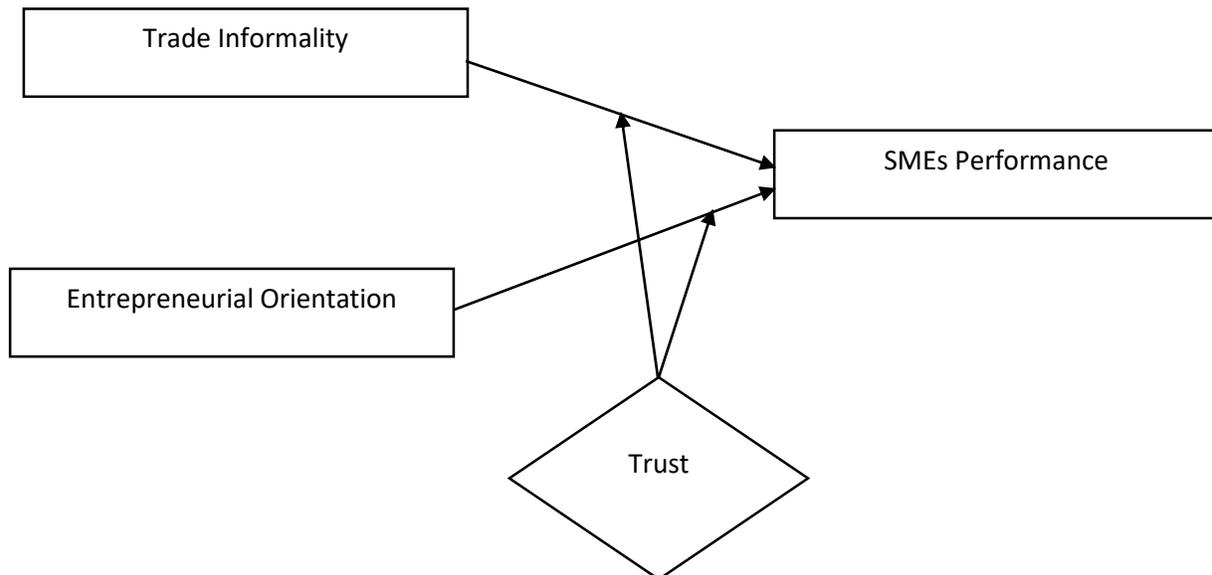
nature and thus, Miller (1983) considered the dimensions as pro-activity, innovation and propensity to take risk. Lumpkin and Dess (1996) included the dimension of autonomy and aggressiveness to the entrepreneurial constructs. This study considers the four dimensions of entrepreneurial orientation to consist of innovation, pro-activeness, risk taking, autonomy and competitive aggressiveness. literature ranging from primary to tertiary data sources such as journals and newspapers and internet.

such as trade informality, entrepreneurial dimensions, border closure, and trust etc. The study primarily relies on reports from extant

### 3.0 Methodology for the Study

This study applies a conceptual review and depends on extant literatures that focused on critical factors affecting SMEs performance

### 4.0 Proposed Model of the Study



The model above primarily examines how significantly the constructs of informal trade and entrepreneurial orientation affect cross border SMEs performance along Adamawa borders. It is evident that the slowdown in the activities of cross border SMEs evolves on entrepreneurial practices as it affects the nature of business negotiations among parties to business. Informal trade and entrepreneurial orientations determine how cross border SMEs are sustained and gradually integrated into the formal economy and consequently boost business activities and the private sector growth for sustainable development. Thus, there is the need to understanding the diverse nature of different nationals' orientation and business practices. The focus of the study is, therefore, aimed at investigating the existence and significance of the relationship among the variables under study.

## **5.0 Conclusion**

It is evident that the slowdown in the activities of Border SMEs evolves on behavioural practices as it affects the nature of business negotiations among parties to business. Informal trading and entrepreneurial orientations determine how border SMEs are sustained and gradually integrated into the formal economy that consequently boosts business activities and the private sector growth for sustainable development of

economy. Thus, the need to understanding the diverse nature of nationals' business practices. The focus of the study is therefore aimed at investigating the existence and significance of the relationship between the variables under study.

## **6.0 Suggestion for Future Research**

Conceptual evidences demonstrate a mixed relationship between trade informality and entrepreneurial orientation as factors affecting SMEs performance. There is also the inadequacy of studies in the context of Adamawa State and Cameroon. Therefore, in order to fill the gap as identified in this study, there is a need for an empirical study to identify the extent of the relationship between the variables with trust as a moderator.

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## Effects of External Business Environment on SMEs Performance

By

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### Abstract

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*This study is aimed at investigating the effects of external business environment which includes complexity, dynamism, diversity and hostility on the SMEs performance. The study was conducted on SMEs operating in northeastern Nigeria. SMEs owners/managers were the respondents for the study. Survey method utilising self-administered and structured questionnaires was used to collect data from the owners/managers of the SMEs. Multistage sampling technique was used in selecting 470 SMEs from a population of 1,726. SPSS and PLS-SEM were used in the analysis of data. The study found that Environmental complexity and dynamism have positive and significant effects on SMEs performance. Unexpectedly, the study found insignificant relationship between environmental diversity, hostility and SMEs performance. Therefore, it is recommended that the SMEs owners/managers should pay more attention to the complexity and dynamism in the external business environment in order to achieve superior performance.*

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**Keywords:** environmental complexity, environmental dynamism, environmental diversity, hostility, SMEs performance

### 1. Introduction

Small and Medium Scale Enterprises (SMEs) are the basis for numerous nations' economic growth and development. Nations with competent, innovative, creative, proactive, appropriately interconnected and with high-performance SMEs would experience rapid economic growth and development through efficient utilization of human and material resources (Pulka, 2019). High SMEs performance can be achieved when the SMEs initiate, implement and sustain right strategies, decisions and policies that enable them to gain

competitive advantage, manage internal resources as well as external resources in the external environment (Pulka, 2019).

Literature have shown the importance and contributions of SMEs. Researchers such as Baporikar, Nambira and Gomxos (2016), Tarute and Gatautis (2014), Toma, Grigore and Marinescu (2014), Egena, Wombo, Theresa and Bridget (2014), Nkechi (2013), SMEDAN and NBS (2013) explained that the growing number of SMEs, entrepreneurial activities and entrepreneurs in an economy forms an essential

area of focus for governments, researchers and other stakeholders. This is because SMEs make tremendous contributions towards employment creation, growth of GDP and export earnings, thereby reducing unemployment, social, political and economic problems inherent in an economy. The contributions of SMEs can be classified into individual, societal and national levels.

Similarly, SMEs play a vital role in the society and country at large. They contribute to the growth of GDP, employment, export, creating values for local resources, technological adoption and improvement, the introduction of new technologies, the introduction of new products and services, the introduction of new industries, development of new markets and discovery of new sources of raw materials (Pulka & Ndubuisi, 2016). Similarly, it also serves in the mobilization and accumulation of capital resources for the establishment of new businesses and business expansion. Equally, SMEs are strengthening export earning of a country through international trade, and it assists in boosting capacity utilization of industries, creating linkages with international organizations through networking and giving the opportunities for development of SMEs into large enterprises (Shettima, 2017; Zafar & Mustafa, 2017; SMEDAN, 2012; Razak, 2011). Similarly, according to Rogo et al. (2017), Belgium's SMEs contribute 99.8% of jobs. In Ireland, SMEs contribute 99.5% of employment. In Germany, SMEs in the

manufacturing sector contributes the total of 57% of the employment opportunities. In Taiwan, SMEs provides 70% of employment. This therefore drastically reduce the number of unemployed youth in the economy. In China, SMEs provides 75% of jobs in the country. According to Kenyan Economic Survey by KNBS (2016), SMEs contribute to about 84.8 % of all new jobs in the country. In Ghana, according to Ndumanya, (2013), the SMEs provides 85% of the jobs in the country. Surprisingly, in Nigeria, SMEs contribute 25% to employment (Shamsudeen, Yeng, & Hassan, 2016; Aminu, 2015). This indicates that SMEs in Nigeria are contributing to employment far less than other countries (Bature et al., 2018; Rogo et al., 2017; Naala & Mahmood, 2016). In the same vein, Nigeria witness high mortality rate among SMEs (International Finance Corporation, 2016; Kushnir, Mirmulstein, & Ramalho, 2010). The report specifies that merely 2% of new start-up SMEs survive up to 5 years. SMEDAN and NBS (2013) explained that only 15% of the newly established SMEs barely survive the first five years. The report is supported by Hassan and Ogundipe, (2017), who reported that many SMEs failed in the first five years of establishment and go into extinction in the 6th to the 10th year of establishment. While only about 5 to 10% of the SMEs have the chances to survive and grow.

Consequently, the study found some gaps in the literature. First, regardless of suggestions by

researchers for models that could improve SMEs performance, still, there is a paucity of studies that investigated the relationship between external environmental characteristics (i.e. complexity, dynamism, diversity and hostility) and SMEs performance as propounded by Chi, Kilduff, and Gargeya, (2009) and Chi (2006). Second, there is a scarcity of studies that consider measuring SMEs performance as advocated by Santos and Brito, (2012). Third, there is paucity of studies conducted on external environmental characteristics and SMEs performance in northeastern Nigeria. Therefore, this study bridged these gaps by investigating the effect of the external environmental characteristics on SMEs performance in northeastern Nigeria. As such, this study investigates the effect of external environmental characteristics and SMEs performance.

## **2. Literature Review and Hypotheses Development**

### **2.1 Environmental Complexity**

Environmental complexity is the degree of heterogeneity among SMEs and varieties of products, services and nature of the market that exists. Mintzberg (1979) observed that complexity is the total sum and diversity of competencies, knowledge, information flow, access to resources and capabilities required by SMEs for successful operations in any given external environment. Boyne and Meier (2009) explained that environmental complexity refers to the heterogeneity of the factors in the

external environment that influence the operations and strategies of the SMEs. Chi, Kilduff, and Gargeya (2009) contended that complexity "refers to the extent that firms are required to have a great deal of knowledge sophistication about products, customers, or any others".

Moreover, to Miller (1993), environmental complexity provides different/numerous resources. Osborn and Hunt, (1974) viewed environmental complexity as the interactions between entrepreneurial risks, dependence and relationships among SMEs. Rosenbusch, Rauch and Bausch, (2011) and Otache (2015) argued that environmental complexity "refers to the amount of different information or knowledge that is needed for the SMEs to understand and operate in an external environment". Similarly, Nasiripour, Raeissi and Hosseini-Fahraji, (2012) expounded that in an external environment full of complexities, SMEs need sufficient and accurate information and knowledge about the happening in the external environment in which they are operating. Therefore, according to Nasiripour, Raeissi and Hosseini-Fahraji (2012), complexity of the external environment may be as a result of growing number of firms in particular industry, diversity of customers' needs and change in the expectations of stakeholders. This could be further aided by rapid changes brought about by information and communication technology. Therefore, the study postulates the following hypothesis:

H01: there is no significant effects of environmental complexity on SMEs performance

## **2.2 Environmental Dynamism**

The environmental dynamism refers to the rate of changes of innovation in the industry, market and uncertainty of the competition and customers. Wijbenga and van Witteloostuijn, (2007) viewed the external environment as mutable, subject to change and volatile. While according to Chi, Kilduff, and Gargeya (2009) dynamism "refers to the speed and predictability of change in the external environment, stemming from sources such as technological change, demand shifts, and competitive moves". Therefore, they argued that environmental dynamism is the frequency or degree at which the external environment is susceptible to change. That means the environment is not static or stagnant but keeps on changing. Dess and Beard, (1984) and Duncan (1972) viewed environmental dynamism as the prevalence of unpredictable and rapid changes with extreme increase uncertainties in the environment, which affects the operations of the SMEs.

Similarly, environmental dynamism is seen as the degree at which consumers/customers preferences are changing towards products, services and firms as time goes on (Wijbenga & van Witteloostuijn, 2007). Judge and Miller (1991) and Hambrick and Mason (1984) established that in a dynamic environment, SMEs need to take into consideration different

available and diverse alternatives to perform better than other SMEs who consider only one or few alternatives.

Moreover, Utterback (1994) discovered that unpredictable and quickly changing external environment might bring forth a wide range of opportunities to the SMEs. These opportunities can manifest in the form of a positive shift in demand for goods and services, new customers' fashion and needs, new technological and scientific methods of production and processing that positively enhance the SMEs performance. Rosenbusch, Brinckmann and Bausch (2010) propounded that as a result of rapid changes in the way competitors are behaving, changes in demand and change in technology due to environmental dynamism, complexity and diversity the current opportunities and resources might become obsolete and irrelevant for the SMEs thereby rendering them useless. They further added that if SMEs can assimilate these opportunities and resources, they can utilize them at the right time especially in difficult times; they can be in an advantageous position to achieve superior SMEs performance over their competitors. Riyadi and Munizu (2022) found that the external environment dynamics improve firm performance. Therefore, the study hypothesised that:

H02: there is no significant effect of environmental dynamism on SMEs performance.

### **2.3 Environmental Diversity**

Environmental diversity refers to the degree to which an organization is faced with homogenous or diffuse conditions (e.g. the number of end-use markets). Diversity affects organizational structure through the diversity of the work to be done (Mintzberg, 1979). Environmental complexity refers to the extent that organizations are required to have a great deal of sophisticated knowledge about products, customers, or whatever (e.g. the complexity of knowledge required to meet changing customer needs) as stated by Mintzberg (1979). Where organizations are confronted with diversity in terms of factors such as product or process technology, customer needs or customer location, the most effective way to combine jobs may be to organize them around the source of diversity (Robins & Decenzo, 2004; Wedel & Kamakura, 1999). Diversity refers to the degree to which an organization is faced with homogenous or diffuse conditions. Munificence is the degree to which an environment supports the growth of organizations within it, which relates to the level of competitive pressures in the environment as exemplified by the intensity of competition and the bargaining leverage applied on companies by buyers and suppliers. Therefore, the study hypothesised that:

H03: there is no significant effect of environmental diversity on SMEs performance.

### **2.4 Environmental Hostility**

SMEs that are operating in an external environment that is hostile; may experience scarce of opportunities and resources and that could affect the operations and success of the SMEs. Rueda-Manzanares, Aragón-Correa, and Sharma, (2008) argued that external environment that is munificent provide numerous opportunities to access and use resources such as government business support, entrepreneurial network, access to financial services, tax relief and holidays, affordable cost of borrowing, availability of new technology, provision of necessary infrastructure, access to market and many other benefits.

The opposite of munificence is hostility (Chi, 2006; Chi et al., 2009). The environmental hostility has to do with the extent to which the external environment present risks and uncertainties to the SMEs. As a result, hostile environment encompasses several factors in the external environment that create challenges to the SMEs in achieving a better SMEs performance. These could be in the form of stiff and unfavourable competition, unfavourable business conditions, insufficient or hard to detect entrepreneurial opportunities and cumbersome government policies, regulations and guidelines (Aminu, 2015; Chi et al., 2009; Chi, 2006; Gnyawali & Fogel, 1994).

In line with the discussion on the EE, Chi et al., (2009) and Venkatraman and Prescott (1990) maintain that owners/managers need to

establish and maintain proper alignment between the dimensions of the EE and the firms' strategic orientations that would lead to the achievement of better SMEs performance. Therefore, EE in this study is defined as the degree to which the activities in the external environment of firms provide opportunities and resources, and be able to determine SMEs achievement, success and overall performance (Aminu, 2015). Therefore, it is hypothesised that:

H04: there is no significant effect of environmental hostility on SMEs performance

### **2.5 SMEs Performance**

SMEs performance is defined as “the abilities of the SMEs to harness, integrate and utilize various internal and external resources with timely and right reconfiguration to achieve targeted set of objectives and performance capable of providing employment opportunities, growth of GDP, export and to uplift the standard of living of the society” (Pulka, 2019). Therefore, the external business environment is a vital component that affects the SMEs operations, activities and overall performance (Asad, Chethiyar, & Ali, 2020; Riyadi & Munizu, 2022).

Similarly, the success or failure of SMEs largely is contingent upon the ability of owners/managers to achieve fit interaction with the external business environment (Asad, Chethiyar & Ali, 2020; Kuznetsova, 2015). Particularly, the ability of the SMEs to embrace changes in information technology and

production technology from the external business environment was found to drive innovation and performance (Nguyen et al., 2018; Pérez et al., 2019). Similarly, due to the fast changing and uncertain business environment, SMEs need to scan and fit the environmental changes and transform it into policies, strategies, and business activities that could make them successful in the market (David & David, 2016).

### **2.6 Conceptual Framework and Underpinning Theory**

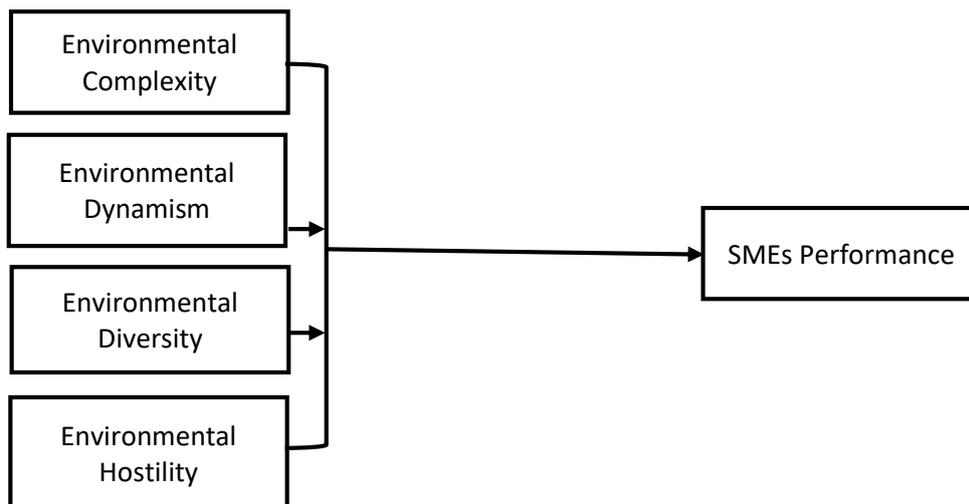
This research utilizes contingency theory to underpin the study. This is one of the theories been frequently used in the management and entrepreneurship research to proffer solution to several problems facing firms. Therefore, contingency theory puts forward that the strategies to be used by the SMEs to solve its problems and challenges can best determine by its situation. Meanwhile, Schuler (2000) threw light to explain the contingency theory; there are multiple strategic choices that SMEs can pursue. The concept of "fit" is explained in many ways, such as consistent with, contingent upon and aligning has crucial importance in contingency theory (Venkatraman, 1989). In a similar vein, Lawrence and Lorsch, (1967) identified that the concept of "fit" or "match" is the basic premise of the contingency theory. Therefore, Drazin and Van de Ven (1985) and Selto, Renner, and Young (1995) emphasized the necessity of fit between organizational strategies and some of the organizational

resources as the essential prerequisite for firm's performance.

Furthermore, Naman and Slevin, (1993) argued that SMEs performance could be improved if there is an efficient and effective alignment of the vital resources of the SMEs. Naman and Slevin, (1993) indicated that the performance of SMEs could be enhanced when essential strategic resources are appropriately aligned. Similarly, Lawrence and Lorsch, (1967) stressed that the basic principle of contingency theory suggests that there should be paramount "fit" among vital strategic resources of the SMEs to achieve better performance. Hence,

the environmental characteristics are been regarded as contingent factors as explained in the contingency theory.

As a result, this study argues that a good fit between environmental complexity, dynamism, diversity and hostility would drastically enhance the SMEs performance. Therefore, the variables of the study consist of environmental complexity, dynamism, diversity hostility as independent variables while SMEs' performance serves as the dependent variables. Figure 1 depicts the conceptual framework of the study.



**Figure 1: Conceptual Framework of the Study**

**3. Methods**

**3.1 Sample and Data Collection**

The population of the study is made up of 1, 626 SMEs. The study used a survey method, where data for the study were collected through a self-administered questionnaires from the owners/managers of the SMEs operating in northeastern Nigeria,. Multistage sampling techniques was employed to arrive at the sample of the study. The study area was divided

into six clusters, then from the six clusters, proportional to size random sampling technique was employed to get subsample from each of the six clusters. Thereafter, simple random sampling technique was used in identifying the SMEs that participated in the survey. To determine the sample of the population, Krejcie and Morgan (1970) sample determination table was used. Then, 50% was added to minimise nonresponse bias (Bartlett,

Kotrlík & Higgins, 2001; Salkind, 1997). Out of the 470 questionnaires distributed, 321 were successfully retrieved. Out of the 321 questionnaires, 13 were found to be invalid because substantial parts of the questionnaire were left blank or double checked. In the end, 308 questionnaires were valid and considered for analysis. With this number, the study achieved a response rate of 65.5%.

### **3.2 Measurements**

The instruments that were used in measuring the variables in the study were adapted from the previous studies. The measurement of SMEs performance was adapted from Santos and Brito, (2012). The measurement of the external business environment is adopted from Chi et al., (2009) and Chi (2006). All the variables were measured on 5 points Likert scale ranging from strongly disagree to strongly agree. Furthermore, SPSS 24 was used in the preliminary analysis and to examine the relationship between the variables of the study, PLS 3.0 was used in the evaluation of the measurement and structural models.

## **4. Results and Analysis**

The results are divided into two sections, preliminary results and main results.

### **4.1 Preliminary Results**

To assess the common method variance (CMV), variables were subjected to Harman's single factor test (Podsakoff & Organ, 1986). It is discovered that the first single factor explained 21.76 percent of the total variance. Thus, it is less than the maximum of 50 percent

as expounded by some research (Podsakoff, MacKenzie & Podsakoff, 2012; Podsakoff, MacKenzie, Lee & Podsakoff, 2003). Therefore, this is an indication of the non-appearance of substantial bias in the data of the study.

After the assessment of CMV, assessment and management of outliers was performed. The data (308 cases) were subjected to univariate outlier analysis by employing Z scores standardised values with a cut off of  $\pm 3.29$  ( $p < 0.001$ ) as suggested (Tabachnick & Fidell, 2007). The results of the univariate analysis showed that 34 cases exceeded the thresholds of  $\pm 3.29$  and as a result, they were considered as univariate outliers in the data. Hence, the 34 cases were deleted from the data, and 274 cases were considered for further analysis.

Similarly, non-response bias was tested using the significant difference between the early and lately returned questionnaires by using t-tests (Chiang, Kocabasoglu-Hillmer, & Suresh, 2012; Armstrong & Overton, 1977). The results indicated that the values of the equal variance significance for the variables are higher than 0.05 significance level of Levene's test for equality of variances (Coakes, 2013; Pallant, 2010). Thus, the results indicated that the equal variance has no statistical differences between the early and late respondents. Additionally, the response rate exceeded the threshold of 50%, as suggested by some researchers (Lindner, James & Wingenbach, 2002).

To check for the normality of the data, the multivariate normality was employed to check the data distribution by employing kurtosis and skewness measure of the distribution (Hair, Hult, Ringle, & Sarstedt, 2017; Fidell & Tabachnick, 2003). The results demonstrated that the Skewness and Kurtosis of the variables are within the accepted limits of less than 2 and 7 respectively (Curran, West, & Finch, 1996; West, Finch, & Curran, 1995). Thus, it showed that the data is normally distributed.

Multicollinearity was inspected by applying correlation matrix, tolerance and level of VIF for the independent variables. The correction results showed no multicollinearity among the variables, where all the coefficients are far below the threshold of 0.9 (Hair, Anderson, Babin, & Black, 2010; Pallant, 2010). Similarly, the tolerance level of 0.20 and higher, while VIF values of below 5 indicated the absence of multicollinearity (Hair et al., 2017; Sarstedt, Ringle, Smith, Reams, & Hair, 2014). The tolerance of all the independent variables are higher than 0.20, and the values of VIF are lower than 5 for all the variables. Therefore, this signifies the absence of multicollinearity.

#### **4.2 Assessing the Measurement Model**

Table 1 shows the results of the standardised loadings, Cronbach's alpha, composite reliability and average variance extracted. All the constructs have achieved the standardised loadings of 0.479 to 0.8834 after deleting some items to achieve the standardised loading through PLS procedure (Sarstedt et al., 2014; Duarte & Raposo, 2010).

Similarly, the variables of the study obtained Cronbach's alpha of 0.677 to 0.828. This is also within the acceptable boundary except for environmental diversity that falls below 0.7. Furthermore, the composite reliability of all the constructs has gained acceptable levels, where the values range from 0.754 to 0.873 (Hair, Ringle & Sarstedt, 2011; Bagozzi & Yi, 1988). The average variance extracted also have achieved satisfactory levels, where all the constructs have values of at least 0.5 and above (Bagozzi & Yi, 1988; Hair et al., 2011).

**Table 1: Loadings, Composite Reliability and Average Value Extracted Values**

Items	Std Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
COM1	0.479	0.759	0.786	0.568
COM2	0.750			
COM3	0.955			
DIV1	0.610	0.677	0.754	0.521
DIV2	0.951			
DIV3	0.535			
DYN1	0.834	0.780	0.849	0.586
DYN2	0.716			
DYN3	0.673			
DYN4	0.826			
HOS2	0.693	0.776	0.840	0.514
HOS3	0.774			
HOS4	0.734			
HOS5	0.589			
HOS6	0.777			
SP1	0.610			
SP2	0.557			
SP3	0.795			
SP5	0.803			
SP6	0.720			
SP7	0.795			
SP8	0.626			

**4.3 Discriminant Validity**

Table 2 shows the results of the discriminant validity based on Fornell Lacker criterion. Therefore, it is clear that all the square root of the AVE of all the constructs are greater than

the correlations among latent the constructs. Consequently, all the constructs have achieved acceptable levels of discriminant validity (Fornell & Larcker, 1981).

**Table 2: Latent Variables Correlations and Square Roots of Average Variance Extracted**

Variables	Env. Complexity	Env. Diversity	Env. Dynamism	Env. Hostility	SMEs Performance
Env. Complexity	<b>0.754</b>				
Env. Diversity	0.710	<b>0.722</b>			
Env. Dynamism	0.670	0.670	<b>0.765</b>		
Env. Hostility	0.687	0.692	0.703	<b>0.717</b>	
SMEs Performance	0.348	0.256	0.368	0.316	<b>0.707</b>

**Heterotrait-Monotrait Ratio (HTMT)**  
HTMT criterion also evaluates the discriminant validity (Henseler, Ringle, &

Sarstedt, 2015). The HTMT is the ratio of the between-trait correlations to the within-trait correlations. The threshold for HTMT is 0.90.

This means if the value of HTMT is 0.90 and below, there is discriminant validity. Hence, based on results presented in Table 3, all the

values of the HTMT are below the threshold of 0.90. Thus, this signifies that validity exist in the study.

**Table 3: Heterotrait-Monotrait Ratio (HTMT)**

Variables	Env. Complexity	Env. Diversity	Env. Dynamism	Env. Hostility
Environmental Diversity	8.070			
Environmental Dynamism	0.811	0.805		
Environmental Hostility	0.707	0.952	7.003	
Environmental Complexity	0.298	0.239	0.411	0.349

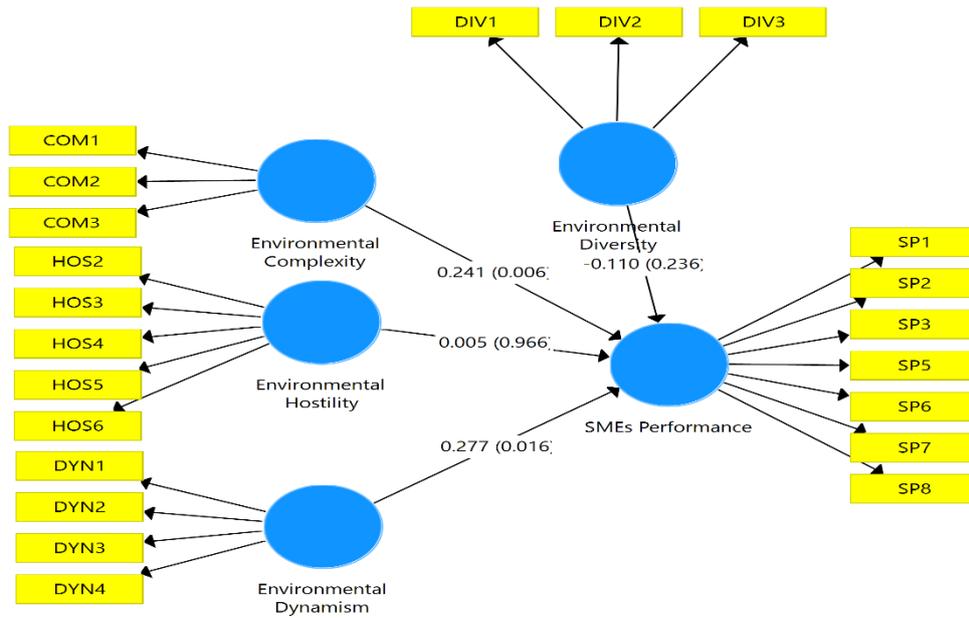
**4.4 Testing of Hypotheses**

Table 4 provides the results of the relationship between environmental complexity, environmental dynamism, environmental diversity, environmental hostility and SMEs performance. First, environmental complexity has significant relationship with SMEs performance ( $\beta = 0.227$ ,  $t = 2.750$  and  $p = 0.006$ ) hence, hypothesis one is rejected. Second, environment dynamism has significant

relationship with financial performance ( $\beta = 0.267$ ,  $t = 2.400$  and  $p = 0.016$ ) thereby making hypothesis one to rejected. Third, environmental diversity is insignificantly related to financial performance ( $\beta = -0.081$ ,  $t = 1.186$  and  $p = 0.236$ ). This makes hypothesis one accepted. Lastly, environmental hostility is insignificantly related to financial performance ( $\beta = 0.022$ ,  $t = 0.042$  and  $p = 0.966$ ). Therefore, the hypothesis one is also accepted.

**Table 4: The Assessing Significance of the Structural Model**

Hypotheses	Beta	Std. Dev.	T Stat.	P Values	Decision
Environmental Complexity => SMEs Performance	0.227	0.088	2.750	0.006	Rejected
Environmental Dynamism => SMEs Performance	0.267	0.115	2.400	0.016	Rejected
Environmental Diversity => SMEs Performance	-0.081	0.093	1.186	0.236	Accepted
Environmental Hostility => SMEs Performance	0.022	0.114	0.042	0.966	Accepted



**Figure 2: Bootstrap relationship between the independent and dependent variables.**

Table 5 illustrates the coefficient of the determination of the whole ( $R^2$ ). The  $R^2$  explains the change in SMEs performance as a result of the effects of environmental complexity, environmental dynamism, environmental diversity and environmental hostility. The results indicated that all the independent

variables explain 14% changes in SMEs performance. Hence, going by the suggestions made by Cohen (1998),  $R^2$  values of 0.26 or higher is substantial, 0.13 is considered moderate, and 0.02 is weak. So, the variance or  $R^2$  of this study are considered as having a moderate effect.

**Table 5: Assessment of Coefficient of Determination ( $R^2$ )**

Endogenous Variable	R Square	R Square Adjusted
SMEs Performance	0.159	0.146

*Field survey, 2019*

Table 6 depicts the results of the effect sizes of all the exogenous variables used in the study. Hair, Hult, Ringle, and Sarstedt, (2017) and Chin (1998) maintained that the effect size explains the relative effects of a specific or individual exogenous variable (s) on the endogenous variable (s) in a model employing the changes in the  $R^2$ . Therefore, it is argued that the accepted level of the effect of size is categorised into three; 0.02 is a small effect,

0.15 is the moderate effect, and 0.35 is a substantial effect (Hair et al., 2017; Cohen, 1988). Nonetheless, even the tiniest strength of effect size ought to be considered as important, as it has the power exert influence on the endogenous variables (Chin, Marcolin, & Newsted, 2003). Therefore, the effect size of the exogenous variables has a different effect on the two endogenous variables ranging from small to no effect.

**Table 6: Assessment of Effect Size ( $f^2$ )**

Variables	Effect Size	Decision
Environmental Complexity	0.026	Small
Environmental Diversity	0.005	Small
Environmental Dynamism	0.029	Small
Environmental Hostility	0.000	Small

Table 7 provides the results of the predictive relevance of the model ( $Q^2$ ). In evaluating the predictive relevance, the blindfolding technique is used (Hair et al., 2017; Hair, Ringle & Sarstedt, 2013; Henseler, Ringle & Sinkovics, 2009; Geisser, 1974; Stone, 1974).

Therefore, a research model with a  $Q^2$  value beyond zero (0) is regarded as having predictive relevance (Henseler et al., 2009). The  $Q^2$  of SMEs performance 0.069. Thus, it is concluded that the model has path predictive relevance.

**Table 7: Assessment of the Predictive Relevance ( $Q^2$ )**

Endogenous Variables	SSO	SSE	$Q^2 (=1-SSE/SSO)$
SMEs Performance	1,918.000	1,784.871	0.069

#### 4.5 Importance-Performance Matrix Analysis

The importance/performance matrix analysis (IPMA) is a use to identify the areas of improvement that owners/managers need to address (García-Fernández et al., 2020). The mean values of the scores are indicated by the construct’s performance, with 0 representing the lowest level of performance, while, 100 representing the highest performance. Table 6

presented the Importance-Performance Matrix Analysis. Environmental dynamism has the highest percentage of 58%, followed by Environmental hostility with 35%, then Environmental complexity with 24% and Environmental diversity with only 11%. Table 8 presents the Importance-Performance Matrix Analysis

**Table 8: Importance-Performance Matrix Analysis**

Variables	IPMA
Environmental Complexity	0.241
Environmental Diversity	0.110
Environmental Dynamism	0.577
Environmental Hostility	0.350

#### 4.6 Model Fit

Table 9 presents the model fit measure. The model fit is the the root mean square discrepancy between the observed

correlations and the model-implied correlations (Sarstedt, Ringle & Hair, 2017). The rule of thumb is that the SRMR value needs to be below 0.10 or 0.08 and NFI of less that 0.90 to

indicate good fit in a research model (Hu & Bentler, 1999). There the results butree that SRMR value is below 0.10 and the NFI is

below 0.90, these indicated that the research model has achived fit

**Table 9: Model Fit**

	<b>Saturated Model</b>	<b>Estimated Model</b>
<b>SRMR</b>	0.915	0.915
<b>d_ULS</b>	3.340	3.340
<b>d_G</b>	0.900	0.900
<b>Chi-Square</b>	1,464.241	1,464.241
<b>NFI</b>	0.571	0.571

**5. Discussion**

As discussed earlier, SMEs play a vital role in providing employment, industrialization, economic growth and development. Therefore, the study examined the effects of environmental complexity, dynamism and diversity hostility SMEs performance. The study found that environmental complexity and dynamism have significant effects on SMES performance. These findings agreed with previous studies (Hambrick, 1983; Kim & Lim, 1988; Miller, 1988). Boyd and Fulk, (1996) which found that firms operating in a complex and dynamic environment are usually facing problems and challenges. Therefore, the ability of the SMEs to survive and succeed is to be able to initiate and implement sound strategies, align these strategies with the happenings in the external business environment by regularly scanning, monitoring and fitting the SMEs strategies with the external environment (Boyd & Fulk, 1996; Drazin & Van de Ven, 1985).

Unexpectedly, the study found insignificant relationship between environmental diversity, hostility and SMEs performance. This means that the more diverse and hostile the external environment is, the greater the constraints and challenges for the SMEs to maintain competitive advantage and to achieve better performance (Boyd & Fulk, 1996; Nandakumar, Ghobadian & O’Regan, 2010).

**6. The Implication of the Study**

The study has implications for policymakers in tackling and providing solutions to numerous problems facing SMEs. The study provides the understanding and empirical evidence that external environmental characteristics do influence the performance of the SMEs. Therefore, the findings from this study pave an avenue to the policymakers to initiate and implicate policies, programmes and other activities to curb the problems facing the SMEs. So the SMEs can contribute more to employment, exporting earning, reducing unemployment, curbing the rate of poverty in the societies and reducing unequal

distribution of wealth and income. Notably, the policymakers should provide favourable business environment for the SMEs.

In the same vein, the study points out the vital role played by different external environmental characteristics to the SMEs. Therefore, the SMEs should regularly scan, evaluate, analyse happening in the external environment to keep on alert. Moreover, the SMEs should regularly align their strategies and resources with the external environment to achieve a strategic fit that can guarantee their success and better performance as expounded in the contingency theory.

### **7. Conclusion and Suggestion for Future Studies**

In conclusion, therefore, the study examined the relationship between external environmental characteristics and SMEs' performance.

Thus, the study contributed to the body of literature in this field by providing empirical and scientific evidence on the relationship between environmental complexity, dynamism, diversity, complexity, and SMEs performance.

Therefore, this study suggests that future research should consider incorporating more variables. Future studies should also consider adding moderating and or mediating variables into the research model. Similarly, future research should consider different research context, setting and population.

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## Mediating Role of Job Satisfaction on the Relationship between the Training and the Academic Staff Performance of Selected Federal Polytechnics in North West, Nigeria

By

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### Abstract

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*This study is aimed at examining the mediating role of job satisfaction on the relationship between the training and performance of academic staff of some selected federal polytechnics in north-west Nigeria. The research design adopted for this study was descriptive survey and the population was one thousand seven hundred and four (1704) while the sample size was four hundred and seventy drawn from the population. Convenience sampling technique was used in selecting the academic staff using Krejcie and Morgans' (1970) table of determining sample size. Partial least square (PLS) software was used to analyze the response of the 372 returned copies of the questionnaire through Pearson correlation and multiple regressions. The result revealed that the independent variables (selection procedure, training design and training methods) have an established relationship with the performance as well as job satisfaction. The regression result showed that selection procedure and training method have significant effects on the dependent variable (performance). Training design is found to have an insignificant effect on the performance. Furthermore, on the mediating variable (job satisfaction) with performance, selection procedure and training design were found to have insignificant effect on the mediator (job satisfaction) with performance. Further, findings revealed that effective training leads to job satisfaction and improve academic staff performance in the selected federal polytechnics. The study recommended that management should use the appropriate training policies in selecting employee for training in order to avoid bias as this improves academic staff performance in federal polytechnics. Moreover, providing good training design that is rich in content and good training method should also be emphasized to improve job satisfaction which leads to improved performance of the employees in the polytechnics.*

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**Key words:** Training, Job Satisfaction, Employee Performance.

### 1.1 Introduction

The success or failure of any organization depends on the performance of its employees. Employee performance is imperative in any industry because it is one of the key indicators of productivity and profitability (Hee &

Kamaludin, 2016). According to Darden and Babin (2016), it is a rating system used in many corporations to decide the abilities and output of an employee. Good employee performance has been linked with increased customer

satisfaction of service quality, while poor employee performance has been linked with increased customer complaints.

According to Abiodun (2018), there are many measures used by an organization in order to attain efficiency in performance, such as quality, efficiency, ability, productivity, profitability and effectiveness. Employee job performance has always been the major challenge in organizational management and adopting effective ways to motivate employees to achieve and deliver higher job performance as well as increase organizational competitiveness is the main objective of every organization (Hank & Robert, 2018). However, Muhammad (2018) observed that the academic staff performance of Nigerian tertiary institutions is deteriorating. This issue, if not urgently addressed, becomes a serious threat to the survival of the educational system in Nigeria. Almost 95% of Nigerian graduates are not employable and this is due to the falling academic staff performance (Onalo, 2018). Onalo posited that curriculum must be finetuned in line with market demand and current trends for our graduates to be globally acceptable and relevant.

Poor performance of academic staff is evidenced by the poor quality of graduates, low rate of publication by lecturers and low morale on the research perspective. According to Webometrics.com, ranking of 2020 and 2021

showed that Yabatech was the best Polytechnic in Nigeria and was rated at 6754 and 8689 respectively in the world ranking. In view of declining performance in polytechnics, the Nigerian president has set a seven-man panel to investigate the problems militating against the institutions for necessary solutions (Ochoga, 2021). Furthermore, the academic staff union of polytechnic chairman attributed the declining of performance to poor funding, poor motivation, irregular curricula review and widening gap of infrastructure (Ezeibe, 2021). Moreover, the secretary, National Board for Technical Education related the poor performance to shortage of well-qualified technical and vocational education teachers and TETFund bias in favour of universities. The Nigerian education sector has been poorly funded in the past years, falling below the United Nations Educational Scientific and Cultural Organization's recommendation of 26% global bench mark as the sector received N1.29 trillion which is equals to 7.9% of N16.39 trillion total budgets (Onyeji,2021). This is insignificant amount to cater for the increasing number of institutions in the country.

Agrawal (2018) asserted that training is one of the variables named by both researchers and practitioners that affect employee job performance. Inadequate training makes employee skills obsolete, inefficient and ineffective and hence, low performance, while

effective training improves employee performance and increases efficiency. Dongh (2016) posited that training benefits organizations by improving employee relations, reducing absenteeism, cross-skilling and increasing productivity and efficiencies. Apart from the consistent development of employee skills through training at intervals, employees also need on the job support in the shape of a mentor, who looks after, repairs, maintains and develops their skills necessary to perform routine activities (Farooq, 2016).

Furthermore, Anwar (2015) argued that a highly satisfied work force is an absolute necessity for achieving high level performance and advancement. Organizations that prioritize employees' welfare are more likely to produce a better result. Khaled (2016) opined that employees who have higher job satisfaction have higher probability to perform than the employees who are not satisfied with their jobs. Hence, factors like pay, promotion and training that lead to employees' job satisfaction should not be neglected by managers because it takes happy employees to be productive employees. Thus, the success of every organization depends on the employees who are the most valuable assets in the organizations. Employee performance in an organization depends on a high level of attention on work and high level of attention depends on employees' satisfaction (Omran, 2016).

Employee job satisfaction is very important in an organization because if employees are not satisfied, their work performance, productivity and commitment as well as interpersonal relationship among the management and their subordinates would be lowered (Ameeq & Hanif, 2016). Employees feel satisfied when they enjoy their duties and responsibilities, their work environment and work practices within the organization (Amin, 2013). Asad (2019) asserted that an effective training program enhances job satisfaction and organizational effectiveness. Employee skills deteriorate and become obsolete overtime and new skills need to be learned. Hence, training improves performance through job satisfaction.

Moreover, Kumar and Siddika (2017) believed that organizations can develop and enhance the quality of current employees by providing comprehensive training to increase job satisfaction and morale and increase motivation, efficiency in productive process resulting in financial gain. Employee training enhances satisfaction and prevents them from abnormal organizational behaviour as turnover, struggle, non- attendance and deficient relations with other employees (Mehrad, 2015).

Furthermore, training slots sponsored by TETFUND are being manipulated to favour some staff over others which may lead to faulty selection of employee for training. This demoralizes and affects staff and makes them

indifferent towards carrying out their task, thereby decreasing their performance and finally may lead to turn over issues. To assist in the possible improvement of employee training in polytechnics and other tertiary institutions that may face similar challenges, this study is embarked upon. It examines the mediating role of job satisfaction on the relationship between training and employee performance among the academic staff of polytechnics. By examining the training process and relating it to job satisfaction and performance, the study provides the relevant information to guide policies and improve transparency and the effective realization of training objectives for polytechnics.

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

There is a decline in lecturers' job performance in Nigeria despite the programmes put in place such as seminars, conferences, workshops sponsored by TETFUND to improve their performance. Their poor performance, quality, poor content delivery, etiquettes and commitment raise a lot of public concern (Owolabi, 2012). This is evidenced by the poor quality of graduates, low publications by lecturers and low morale on the research. According to the national ranking 2020 and 2021, Yabatech was the best Polytechnic in Nigeria and was rated at 6754 and 8689 respectively in the world ranking (Webometrics.com).

In view of the decline academic staff performance, Nigerian president has set a seven-man panel to investigate the problems militating against the institutions for necessary solutions (Ochoga, 2021). Abolade (2017) opined that inadequate training may lead to various work outcomes, such as absenteeism, employee turnover, low productivity, job dissatisfaction and low performance. Inadequate training practice is among the major issues of poor employee performance in most organizations. One of the major problems of training starts right from the selection procedure, design and the method used for the training most of which are inappropriate and cannot impact the required knowledge (Muhammad, 2018).

There is consistency of findings of similar studies with positive relationships between training and employee performance (Kumar, 2017; Nahida, 2018; Hank & Robert, 2018; Okojackonia 2017; Muhammed & Hisham, 2018; Rahma & Muhammed, 2018; Ameerq & Hanif, 2013; Amin, 2013; Elnaga & Imran, 2013; Yusuf, 2017). Sani, Lawan and Bature (2018) suggested that further research should be conducted with job satisfaction as mediating variable in order to realize a suitable result.

### **1.3 Research Objectives.**

This study investigates the mediating role of job satisfaction on the relationship between training and performance of academic staff of some selected north western Nigerian public polytechnics.

### **1.4 Research Hypotheses**

To achieve the stated objective of the study, alternative hypotheses were formulated as follows:

**H01:** There is no significant relationship between the selection procedure of employees for training and academic staff performance in Polytechnics.

**H02:** There is no significant relationship between training design and academic staff performance in Polytechnics.

**H03:** There is no significant relationship between training method and academic staff performance in Polytechnics.

**H04:** Job satisfaction has no significant mediating effect on the relationship between the selection procedure and academic staff performance in Polytechnics.

**H05:** Job satisfaction has no significant mediating effect on the relationship between training design and academic staff performance in Polytechnics.

**H06:** Job satisfaction has no significant mediating effect on the relationship between training method and academic staff performance in Polytechnics.

## **2.0 Literature Review**

### **2.1 Employee Performance**

Long, (2014) described employee performance as the level of the productivity of an individual employee, relative to his or her peers, on several job-related behaviours and outcomes. Tang and Chang (2010) viewed employee performance as behaviours engaged in by employees at work that strive to keep organizational goals. On the contrary, Khuong and Yen (2016) opined that employee performance is seen as an activity that an individual is able to complete the assigned task successfully. The total output that employees recognize contributes to the organization. However, employee performance can be viewed from the perspective of the sum of opportunities, abilities and motivation.

### **2.2 Employee Training**

Muhammed (2018) defined training as the teaching or learning activities carried on for the primary purpose of helping the members of an organization to acquire and apply the knowledge, skills, abilities and attitudes needed by that organization. It is the act of increasing knowledge and skill of an employee for doing a particular job. Therefore, training needs to be seen by the management of every organization as a long-term investment in its human resource. According to Pallavi (2013), training programs play a vital role in every organization. These programs improve employee performance at the workplace and update employee knowledge and

enhance their personal skills which help in avoiding managerial obsolescence. Thus, this study adapts Muhammed's view because training is all about learning new ideas in order to help the organization achieve its target.

### **2.3 Selection Procedure**

Selection procedure is a process of choosing the right person for the job or training from a pool of different candidates who applied for a certain job training (Mark & Andrew, 2012). Unconventional selection practices in terms of poor policy in selecting staff for training, inconsistency in the selection process, side tracking interview, god-fatherism in the selection process and the influence of the management on the interviewer to pick for training may mar the organizational plan and pose performance challenges (Andrew, 2000). Additionally, the success of an organization depends on the calibre of the manpower that steers the day-to-day affairs of the organization. Therefore, an individual's need for training also has to be analyzed before training designing. This entails that performance evaluation of individual personnel to determine his training needs is based on the variance between desired performance and actual performance (Nmadu, 1999). Selecting the right employee for training helps to increase organizational performance and productivity.

### **2.4 Training Methods**

There are many methods of training employees in an organization. The range of training methods used has been expanded by the application of technology in its "hard" (for example, through computing technology) and in its "soft" (for example, through instructional design) approaches (Sadler-Smith, 2000). Training employees is intended to increase the expertise of trainees in particular areas. When thinking about the training method to use, it is useful to consider the current level of expertise that trainees possess (Sims, 2006). Training methods can generally be categorized as either on the job or off the job. The training delivery options for either method can be sourced from either in-house or external sources or a combination of both (Coles, 2000).

### **2.5 Training Design**

Training design refers to the degree to which the training has been designed and delivered in such a way that provides trainees the ability to apply learning on the job (Holton, 2000). It is very necessary for the organization to design the training very carefully (Armstrong, 2000). Aguinis and Kraiger (2009) continued to explore error training as a strategy for increasing performance and maintaining performance under changing environmental demands. In contrast to traditional training design approaches that focus on teaching correct methods (and avoiding errors), error

management training encourages trainees to make errors and engage in reflection to understanding the causes of the errors and the strategies to avoid making them in the future. In terms of design, recent research suggests that the benefits of training are enhanced by applying theory-based learning principles, such as encouraging trainees to organize the training content, making sure they expend effort in the acquisition of new skills and providing trainees with an opportunity to make errors together with explicit instructions to encourage them to learn from these errors (Aguinis & Kraiger, 2009).

## **2.6 Job Satisfaction as Mediator**

Job satisfaction is a crucial issue in the performance of workers. The concept of job satisfaction has been contestable and its definition, depending on the perspectives (Hofman, 2013). Rice (1997) defined job satisfaction as an overall feeling about one's job or career in terms of the specific facets of job or careers. However, Evans (1997) argued that the concept is ambiguous and its ambiguity is rooted in the distinction between what is satisfactory and satisfying. In an attempt to solving this ambiguity, Bogler and Nir (2012) re-conceptualized job satisfaction in terms of two constituents: job fulfillment (how well the job is performed) and job comfort (one's satisfaction with the conditions of the job) e.g. compensation, autonomy, co-workers. It can be

related to specific outcomes, for example, productivity.

Studies have identified four major factors that affect job satisfaction. First, we have the demographic factors, which include age, gender, tenure and education. And previous results suggested the existence of relationships between demographic characteristics and job satisfaction, but evidence tends to be mixed, with positive and negative relationships (Vegas, 2001).

The second critical aspect is linked to the remuneration of the employees. A salary is a payment which persuades an employee to commit his or her personal time and work (Hyz, 2010). The challenge is that a salary is the main source of the cost for the operation and development of business (Oshagbemi, 2000). There is no clear view on the relations between job satisfaction and salary. On the one hand, some studies take Herzberg's view and treat salary as one of the hygiene factors. On the other hand, others argued that if a salary is equal to or greater than expected from the employee, the employee's satisfaction increases and the opposite result occur when the salary is lower than expected (Hyz, 2010).

Supervision is the other important aspect and refers to the fairness and competence at managerial tasks by one's supervisors and co-workers (Hart, 1994). Also, leadership style is very crucial in job satisfaction because it helps

people learn to contribute and feel the freedom in their work (Bogler, 2001; Chen, 2001; Cranny., 1992). In this line of thought, results of other studies have shown meaningful relations between job satisfaction and the possibilities of promotion, gaining respect, the size of the organization and self-development and achievement of the use of talents (Hyz, 2010). Also, studies demonstrated that organizational behaviors, like warmth among employees, mutual trust, respect and rapport between employees and superiors, can be significant predicting factors of the job satisfaction experienced by employees (Belias & Koustelios, 2014).

Payment level of wages and salaries is an important factor that affects employees' job satisfaction. Money not only helps personnel to attain their basic needs but is also instrumental in providing upper-level needs satisfaction (Luthans, 1992). A study of 2000 managers demonstrated that the amount of wages received was very positively related to satisfaction, even with managerial level held constant. Work itself has an influence on employees' job satisfaction, since the Herzberg's, Mausner's and Syndermann's (1959) monograph on the motivation to work was published in 1959, evidence has been accumulated that the work itself plays a significant role in attaining job satisfaction (Feldmann & Arnold, 1985).

## **2.7 The Theory Relevant to the Study**

The theory that guides this study is Herzberg theory which obviously relates to all the study variables.

### **2.7.1 Two Factor Theory**

Herzberg's two factor theory is probably the most widely known and accepted approach relating directly to job satisfaction. Herzberg addressed the problem of job satisfaction in terms of the factors which cause satisfaction (motivators) and those which cause dissatisfaction (hygiene). This information then becomes the basis for evaluating an individual's job and making the changes necessary to increase worker motivation. Herzberg analysed and classified the job content factors or satisfying experience such as: achievement, recognition, work itself, responsibility, advancement and growth (Schermerhorn, 1993). According to Herzberg, these factors stand out as strong determiners of job satisfaction with three of them, a sense of performing interesting and important work (work itself), job responsibility and advancement, being the most important relative to a lasting attitude change.

Unlike satisfiers or motivators, some factors cause low job dissatisfaction. Such factors were found from the analysis of the study results associated primarily with an individual's relationship with the context or environment in which they work. These factors are extrinsic to

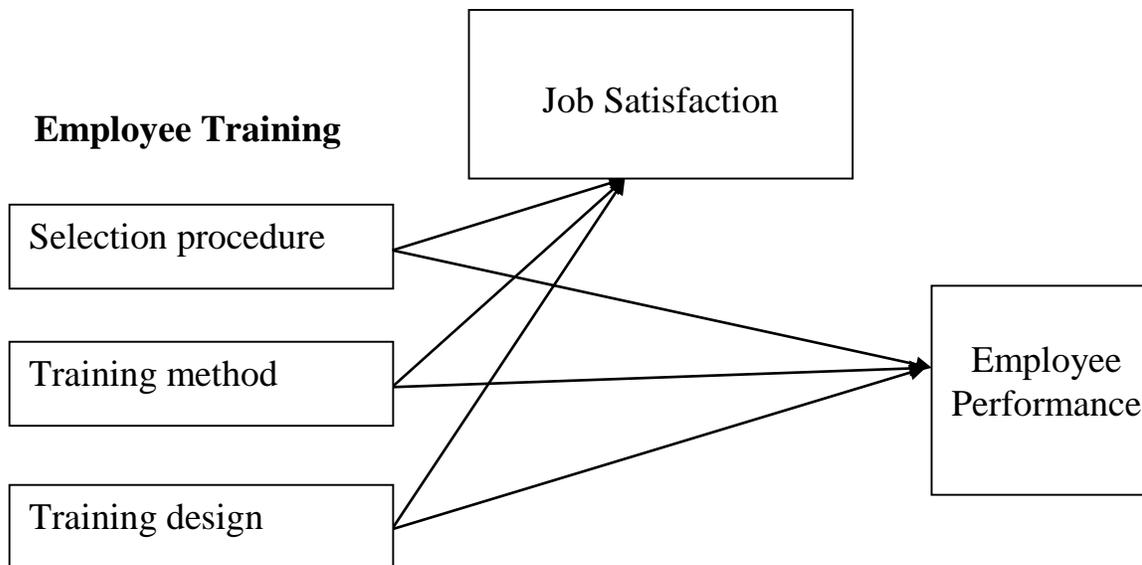
the work itself and referred to as dissatisfiers or hygiene (or maintenance) factors. Herzberg categorized the context or environmental factors causing dissatisfaction to include: company policy and administration, supervision, working conditions, interpersonal relations, status, job security, salary, personal life (Connaway, Dickey & Radford, 2011). When these factors are considered good or acceptable, workers do not tend to become satisfied; they simply become not dissatisfied. Productivity is not restricted. It is just held at an acceptable level. When workers become dissatisfied with any of these factors, they tend to restrict output (Chappells & Shave, 2004).

The motivators or satisfiers according to Herzberg, cause job satisfaction which lead to higher performance because the more employees are satisfied, the more they put more

effort and energy to perform better. In academic environment, academic staff may not have any achievement, recognition, higher responsibility and may not advance and grow in his career without training. That is why training is very important without which an academic staff cannot progress.

### 2.8 The Conceptual Model of the Study

The proposed framework or model of this research has three variables; employees' performance as the dependent variable, job satisfaction as the mediating variable and training as the independent variable, whose dimensions are: selection procedure, training method and training design. It is expected therefore, that improved employee performance depends on how efficient and effective the tertiary educational institutions are managing the three proxies of training.



Source: Researcher, 2019

Figure 1: Conceptual Model of the Study

From Figure 1 above, it should be noted that training was employed as the independent variable, job satisfaction as the mediating variable and employee performance as the dependent variable of the study.

### 3.1 Methodology

This study chooses survey method research design due to its appropriateness and the researcher has no control over the variables as well as the outcome. It also employs cross-sectional method of data collection whereby the data are collected once at a given point and time and also summarized statistically within the period of investigation. The findings and conclusion of the study solely depend on the full utilization of the statistical data collected. The population of this study comprises the

The table below shows the sample distribution of various schools of the population for the study.

**Table 1: Sample Distribution**

S/NO.	Name of the Institutions	Population	Sample Size
1	Kaduna Polytechnic	1242	228
2	Federal Polytechnic Kaura Namoda, Zamfara State	462	85
3	<b>Total</b>	<b>1704</b>	<b>313</b>

**Source:** Krejcie & Morgan Formula

However, the sample size was increased by 50% from 313 to 470 to account for non-respondents as suggested by Salkind (2012). The researcher used convenience sampling technique because, Samuel, Ernest and Awauh, (2013) suggested a convenience sampling technique when there is lack of sampling frame and when population is not well known. The research uses a questionnaire (primary data) as

academic staff of some selected Federal Polytechnics in the north western states of Nigeria. These are Kaduna Polytechnic with 1242 staff and Federal Polytechnic Kaura Namoda with 462 staff, thus the population of the study is 1704 staff drawn from the institutions as at March 2019. The reason for their selection is that they were initially established as federal polytechnics unlike the remaining who were converted later on.

The study uses the Krejcie and Morgan (1970) model of sample size determination by using the formulae suggested by Dillman, (2000).  $n = \frac{(N)(P)(1-P)}{(N)-1 \left(\frac{B}{C}\right)^2 + P(1-P)}$ , from the population of 1704, the sample is 313.

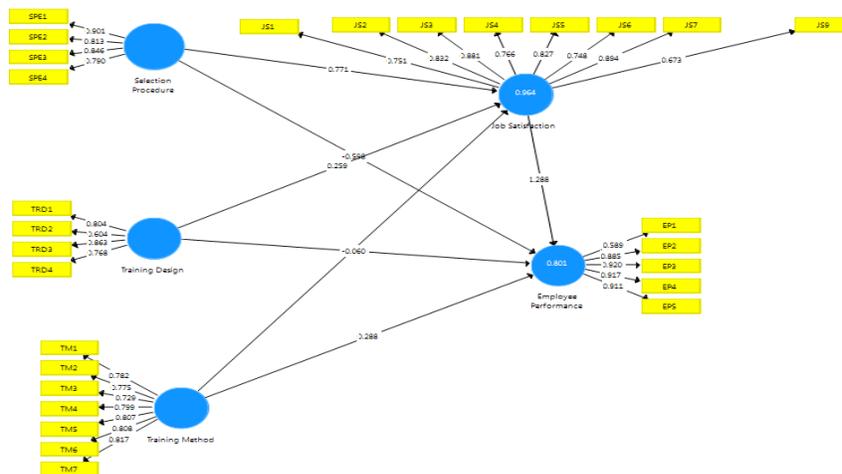
instrument for data collation due to the size of the population and the fact that it measures the key research variables. The questionnaire is structured in the close-ended format, with a 1-5 likert scale, which ranged from strongly disagree to strongly agree to answer the research questions and also measure the subjects' responses.

The study also employs Pearson correlation matrix to determine the relationship among the independent variables and the relation between the independent and dependent variables. To examine the data, the research uses regression analysis to explain the total effect of the independent variables on the criterion variables and hierarchical regression to test the mediating variable. Thereafter, the study deploys statistical package for the social sciences software (SPSS) version 25 for the preliminary analysis and descriptive statistics. And lastly, smart partial least square (PLS) to examine the assessment of a measurement model and the assessment of a structural model.

## 4.0 Result and Discussions

### 4.1 Individual Item Reliability

Individual item reliability was assessed by examining the outer loadings of each construct's measure (Duarte & Raposo, 2010; Hair et al., 2014; Hair et al., 2012; Hulland, 1999). Following the rule of thumb for retaining items with loadings between .5 and (Hair et al., 2014), it was discovered that out of 32 items 2 were deleted because they presented loadings below the threshold of 0.50. Therefore, in the whole model, only 30 items were retained, as they had loadings between 0.589 and 0.904 (see Figure 4.3 below):

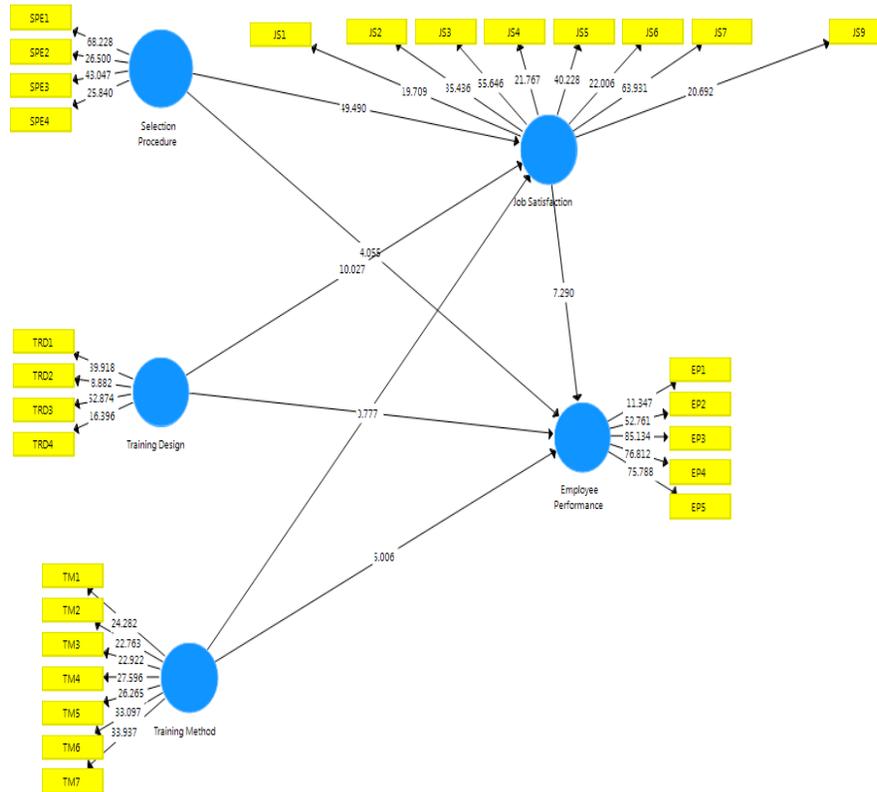


**Figure 2: Individual Items Reliability**

### 4.2 Assessment of Significance of the Structural Model

Having ascertained the measurement model, this study assessed the structural model and applied the standard bootstrapping procedure with a number of 5000 bootstrap samples and

354 cases to assess the significance of the path coefficients (Hair et al., 2014; Hair et al., 2011; Hair et al., 2012; Henseler et al., 2009). Figure 4.7 and Table 4.13 therefore show the estimates for the full structural model, which includes moderator variable.



**Figure 3 Structural model**  
**Hypotheses Testing**  
**Table 2 Hypothesis Testing**

Hypothesis	Variables	B	Std Error	t-Value	P-Value	Decision
H1	Selection Procedure-Performance	.595	.177	4.055	0.000	Supported
H2	Training Design-Performance	.058	.016	0.696	0.243	Not-supported
H3	Training Method-Performance	.286	.057	5.063	0.000	Supported
H4	Selection procedure Job Satisfaction, Performance	.769	.143	49.49	0.000	Supported
H5	Training Design-Job Satisfaction-Performance	.259	.087	10.027	0.000	Supported
H6	Training Method-Job Satisfaction-Performance	.018	.026	0.777	0.698	Not-supported
H7	Job Satisfaction – Performance	.285	.021	7.290	0.000	Supported
Sig.	0.000					
R2	0.801					

**Source: Survey Data, 2022**

Based on the table above, it is clear that the constructs of all the variables have a positive relationship for having a positive beta. But to the effect of the independent constructs to the

dependent and mediating variable, it is observed that Hypotheses 1 and 3 (selection procedure and training method) were found to have significant effects on the dependent

variable (employee performance) for having p-values of less than 5%. Also, Hypotheses 4 and 5 (selection procedure and training design) were found to have significant effects on performance when mediated by job satisfaction for having a p-value of less than 5%. However, Hypothesis 2 (training design) was found to

have no significant effect (employee performance) for having a p-value greater than 5%. Moreover, Hypothesis 6 (training method) was found to have no significant effect on performance when mediated by (job satisfaction) for having a p-value greater than 5%.

**Table 3 Variance Explained in the Endogenous Latent Variables**

Constructs	R <sup>2</sup>	Assessment criterion suggested by Cohen (1988)
Performance	0.801	Substantial

**Source: Survey Data, 2022**

Based on the table above, it is clear that the proportion of variation in the dependent variable that is explained by the independent and mediating variables is substantial. This is because Chin (1998) suggested that the R-squared values of 0.67, 0.33 and 0.19 in PLS-SEM can be considered as substantial, moderate and weak, respectively. By implication, the R square value of 0.801 indicates that 80 percent of the performance of the selected polytechnics is explained by training (selection procedure, training design and training method) while the remaining 20 percent is explained by other factors.

**4.5 Discussion of Findings**

As noted earlier, the researcher formulated six hypotheses in line with three constructs of the training (selection procedure, training design, and training methods) as independent variables and performance as the dependent variable. The mediating (job satisfaction) was then

introduced to mediate between the independent and the dependent variables. Based on the foregoing, it is evidenced that the independent variables together with the mediating variable can only predict the dependent variable (performance) by 80% because of having an R-square of 802., while other variables predict the remaining 20 % of performance in the selected polytechnics. However, the hypotheses are discussed and provided below:

**Hypothesis 1: Selection procedure has no significant effect on academic staff performance.**

Selection procedure was found to have a significant effect on the dependent variable (employee performance) for having a p-value (0.000) of less than 5% and a positive relationship for having positive beta ( $\beta=.595$ ). The null hypothesis therefore failed to be accepted and the alternate accepted. This finding is in line with the finding of Omran (2016) but contrary to Isah (2018). By

implication, training problems usually started right from the wrong selection of employees which leads to waste of resources, while the right selection procedure that is systematic and free from bias plays a significant role in improving academic staff performance and when the polytechnics follow the systematic method of selecting employees for training their performance would increase.

**Hypothesis 2: Training design has no significant effect on academic staff performance.**

Training design is found to have no significant effect on the dependent variable (employee performance) for having a p-value (0.243) greater than 5%. Even though it has a positive relationship for having positive beta ( $\beta=.058$ ), the null hypothesis is therefore, accepted. This finding is in line with Zubair (2016) and contrary to Sani (2018). By implication, the training design that is rich in content and captures identified skills gaps would significantly increase the performance of the academic staff of the polytechnics.

**Hypothesis 3: Training method has no significant effect on academic staff performance.**

Training method is found to have a significant effect on employee performance for having a p-value of (0.000) less than 5% and has a positive relationship for having a positive beta ( $\beta=.286$ ). The null hypothesis is therefore not accepted and the alternate accepted. This finding is in line with the findings from Nahida

(2018) and contrary to those from Sandamali (2018). By implication, when the selected polytechnics use a good training method that captures the attention of the audience and suits the type of training, the performance of academic staff would increase. Good training method helps trainees to acquire the needed skills and knowledge while the wrong training method leads to waste of time.

**Hypothesis 4: Job satisfaction has no significant mediating effect on the relationship between selection procedure and academic staff performance in polytechnic.**

Job satisfaction significantly mediates the effect of selection procedure to performance. This is because it is found to have a p-value of (0.000) less than 5% and have a positive relationship for having a positive beta ( $\beta=.769$ ). The null hypothesis is therefore not accepted and the alternate hypothesis accepted. The finding is in line with the theory postulated by Herzberg that for employees to be satisfied with their job and improve in their performance, they need growth and advancement in terms of knowledge and career.

**Hypothesis 5: Job satisfaction has no significant mediating effect on the relationship between training design and academic staff performance.**

Job satisfaction significantly and positively mediates the effects of training design to performance. This is because it is found to have a p-value of (0.000) less than 5% and a positive beta of ( $\beta=.259$ ). Therefore, this hypothesis is

rejected and the alternate hypothesis accepted. This implies that training design that is rich in content and captures the skills gap improves job satisfaction, which finally increases performance. This finding is in line with the finding of Divyaranjan and Rajasekar (2014) and contrary to Muhamed (2018).

**Hypothesis 6: Job satisfaction has no significant mediating effect on the relationship between training method and academic staff performance.**

Job satisfaction does not significantly mediate the effects of training method to performance. This is because it is found to have a p-value (0.698) greater than 5% and has a positive relationship for having a beta of ( $\beta=0.18$ ). For this therefore, the null hypothesis is accepted. This implies that training method does not affect the satisfaction of employees in the polytechnics and may be as a result of poor training method they are exposed to. A well-organized training method that captures the attention of the audience may significantly improve performance. So also, if it is not delivered in an impressive style and does not capture the attention of the audience, it means that the trainer is wasting his time.

**4.6 Conclusion**

The study concludes that if the right employees are sent for training through systematic procedure of identifying and selecting employees for training, there would be a significant improvement on the employee

performance. Therefore, polytechnics would become more productive and remain vibrant in global competitiveness and complexity of the work environment. Therefore, adequate training needs assessment should be conducted by staff development unit to identify the skill gap before sending employee for training.

**4.7 Recommendations**

- (i) Based on the conclusion, the study recommends that more efforts should be made in ensuring effective and efficient training for the academic staff of the polytechnics under study.
- (ii) Having a positive relationship between selection procedure and academic staff performance, it is recommended based on the study findings that polytechnics under study should prioritize training selection procedure. This should be done by adopting training needs assessment in order to give any employee the chance of being selected as this would help to improve job satisfaction and in essence, improve job performance.
- (iii) Furthermore, emphasis should be given to training design because of its importance. It should be rich in content to cover the identified skill gaps and satisfy the training needs and also the trainer should be knowledgeable and experienced for training delivery.
- (iv) Moreover, training method should be simple, capture the attention of audience and suit the type of training to be conducted. So

also, the staff training development unit should evaluate trainees after training to know if they have really acquired the skills needed or not.

(v) Federal government should increase the funding to federal polytechnics to enable them conduct internal conferences and seminars and carry out other activities that would help them to improve staff performance.

(vi) Laboratories and libraries of the polytechnics should be well-equipped to enable the staff access latest materials and apparatus for employee training success. This enables them to make good research and finally increase productivity.

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## Exploring the Impact of Role Congruence on Work-Related Stress and Employee Productivity in Public Health Facilities: A Qualitative Study in Kwara State, Nigeria

By

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### Abstract

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*Currently, healthcare facilities in Kwara State are characterized by massive expansion and high rate of patients' enrolment seeking for medical care which is creating so much misunderstandings leading to physical assaults of healthcare workers by patients' relatives who wrongly assumed they are not getting the required attention and care from these workers but was majorly caused by stress due to shortage of manpower. The shortages of competent healthcare professionals in most public health facilities in Nigeria make the available staff being over-stretched beyond limit thereby causing them a lot of stress which decreased their productive capacities. Hence, this study seeks to evaluate the relationship between role congruence and productivity of healthcare workers in public hospitals in Kwara State, Nigeria. This study is a descriptive study adopting the survey and case study method using the deductive approach and relying on qualitative method. The population of study comprised 2,139 staff across the 46 hospitals owned by the Kwara State government. The interview responses were analyzed and transcribed thematically using Nvivo 12 software. Therefore, this study concluded that effective matching of individual employees' characteristics and attributes with the assigned roles, tasks and responsibilities is an essential determinant that influences healthcare workers' output and productivity. As such, the study recommended that healthcare facilities must ensure they take into consideration the safety, well-being and emotions of healthcare workers while assigning roles and responsibilities in order to exalt positive energies from employees which lead to increased productivity at workplace.*

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**Keywords:** Employee Productivity, Public Health Facility, Role Congruence, Stress Management

### Introduction

Workplace related stress is an intensifying problem in the organizational settings as it not only affects the employees work life but also impact on employees' safety, mental wellbeing as well as family life.. Work stress is described as those difficulties and tensions that envelopes employees' work environment which affects their productive capacities. It is a crucial impacting variable

which influences organizational wellbeing and health of its employees. It impacts on the behavior of employees at workplace. It has a far-reaching impact on the motivation and satisfaction of employees. The productivity of employees and the overall productivity of the organization are affected by levels of stress and motivation. Work stress causes various psychological

problems such as anger, depression, anxiety, irritability and tension which in turn influence employees' degree of motivation (Pato & Kumar 2019). Stress management practices such as stress management training, seminars on job burnouts, supportive organizational climate, yoga and meditation, the close association of co-workers, celebrations are made periodically at the executive level. But, celebration, stress management training and yoga and meditation are the most preferred practices. Generally, stress is a feeling of emotional or physical tension. It comes from any event or thought that makes an individual feel frustrated, angry, or nervous. Stress is your body's reaction to a challenge or demand. In short, bursts stress can be positive, such as when it helps you avoid danger or meet a deadline. Medline Plus (2021) noted that stress is caused by an existing stress-causing fact or "stressor". There are two main types of stress – *acute stress* and *chronic stress*; and when stress lasts for a long time, it may harm the health of the individual. The 21<sup>st</sup> century workplace is highly demanding, fast paced and constantly generates anxiety related pressure on workers which often leads to stress. Sampson (2020) observed that positive pressure leads to optimal performance, while negative pressure leads to stress with its negative after-effects.

Workplace stress has become a phenomenon experienced by many employees around the globe. The reasons for this can be attributed to the increasing spate of globalization, dynamic and competitive business environment, among other factors. Since the consistent performance of any organization depends on the overall wellbeing of its employees, the subject of workplace stress requires urgent investigation. Stress refers to the exertion of pressure and the attendant reactions to demands (McEwen, 2007). Work stress is the response of employees to job demands and pressures that are not in line with their knowledge, interest, skills and abilities (Hicks & Caroline, 2007) and affect their capacity to cope (Fried, 2008). Stress arises in wide ranging work situations but becomes worse when employees sense they have little or no control over work processes. Also, role congruence is another crucial variable which arises as a result of member of staff being perceived as having a high and responsible position in one aspect but a lower standing in another respect. Issues arise from the nature of groupings and most times formal relationships within the work group. For instance, work-related relationships can be viewed in a Doctor-Nurse relationship which can cause imbalances of authority and responsibility. According to the World Health Organization, stress is a significant problem of our times and affects both physical as well as the

mental health of people. Stress is defined as a situation where the organism's homeostasis is threatened or the organism perceives a situation as threatening. It is the stimulating state of the mind and body, a physiological and psychological reaction to demands (Bamba, 2016).

Like many countries around the world, the Nigerian business environment is characterized by stress. The socioeconomic structure of the external environment and the demands of the workplace make it pertinent for employees to possess the effective coping strategies, without which performance could be hampered (Oyewunmi *et al.*, 2015). The modern workplace runs on a high speed in terms of work ethics, technology and other demanding attributes that generates anxiety-related tensions on employees as the Nigerian healthcare system like many other sectors of the economy is characterized by stress, hence the need for stakeholders to create structures that allow for effective coping strategies among healthcare workers that would lead to higher productivity (Zhu, 2021). Currently, healthcare institutions in Nigeria, particularly hospitals in Kwara State, are characterized by massive expansion and high rate of patients' enrolment seeking for medical care which is creating so much misunderstandings leading to physical assaults of healthcare workers by patients' relatives who wrongly assumed

they are not getting the required attention and care from these workers but was majorly caused by stress due to shortage of manpower. The resultant effects of the incidents mentioned of this include: increased workload for members of the workforce, increased pressure, a sense of powerlessness conflicting demands, organizational change, and a high degree of uncertainty (Cooper, Payne 2008). It is important that service providers in Nigeria's health sector, whether public or private, understand that high levels of workplaces stress can become harmful for individual employees as well as having adverse psychological and physical reactions that happens to employees due to being unable to cope with certain job demands (Joy, 2020). As a result of shortages of competent healthcare professionals in most public health facilities in Nigeria, the available ones who have not left the shores of the country due to recent 'Japa Syndrome' are being over-stretched beyond limit thereby causing them a lot of stress which decreased their productive capacities. Most public hospitals for instance, are not adequate in terms of infrastructural deficits due to poor funding by the government. Allocation in states' budgets have become mere political statement or at best annual rituals because most of these provisions are not being implemented by various ministries,

departments and agencies as a result of paucity of funds..

The Nigeria's universal health coverage drive overtime has been bewildered with various challenges; ranging from poor infrastructures, poor population coverage, supply side inadequacies, weak fiscal space and bureaucratic bottlenecks to lack of required political will. This resulted to many households financing their healthcare needs through the regressive out of pocket payment systems. The National Health Accounts in Nigeria which is officially saddled with the responsibility of tracking expenditure in healthcare revealed that over 70% of households' expenses on Medicare are done through this inequitable system called out of pocket expenditure. The above figure is far above the 20-30 percent acceptable threshold set by World Health Organization (WHO). The implication of this is that households are the ones shouldering the burden of healthcare spending in Nigeria, contrary to the universal health coverage guiding principle that put much emphasis on public spending which includes but not limited to social health insurance, drug revolving scheme, health tax and so on. Also, the timely disbursement of allocated funds from the consolidated revenue fund account which is being referred to as healthcare provision fund to the sub-national governments would also help in this direction.

The introduction of the health insurance scheme by the Kwara State government in 2006 has also contributed to the work load of healthcare workers as a result of increasing patients' demands due to higher awareness and affordable costs of treatment and medication. Healthcare has the highest attrition rate with high rate of staff movement to other institutions within and outside Nigeria. There are also reported cases of assaults by patients' relatives on healthcare workers in the course of discharging their duties due to disagreements over alleged lack of attention by healthcare personnel which is mostly caused by shortage of staff and overworking of those on ground.

Role congruence refers to the match between an individual's characteristics and the demands of an occupation. This suggests that a lack of consonance between an individual's traits or interests and the requirements of a job, may have negative effects. Stress is an apparent outcome of a mismatch between an individual and job related demands. Extant literature considers job-related stress as a lack of person-environment fit, while other indicators of incongruence may be unhappiness, dissatisfaction, low performance, turnover and physical illness (Malik, Butt & Choi, 2015).

Currently, hospitals in Nigeria, particularly public health facilities are characterized by

massive expansion and high rate of patients' patronage. The likely effects of this include: increased workload for healthcare workers, increased pressure, a sense of powerlessness conflicting demands, organizational change, and a high degree of uncertainty (Cooper & Payne, 2008). Within the internal environment of the workplace, physical conditions can also trigger stress (Fried, 2008). For instance, excessive noise within the workplace causes physical and behavioral problems as many public health facilities are located in highly congested and unsafe environments. Severe vibration, hot, humid conditions and constant presence of hazardous substances or other hazards can also trigger stress (Aldana *et al.*, 1996). Workplace stress may encourage truancy which may later result in high turnover (Cooper, Payne 2008). It is important that organizations in Nigeria's higher education sector, whether public or private, understand that high levels of workplace stress can become harmful for individual employees and the organization as a whole. Hence, to enhance corporate image and achieve competitive advantage, stress management and coping strategies become imperative (Monat & Lazarus 2001; Adeniji & Osibanjo, 2012; Liu *et al.* 2013; Manjunath & Rajesh, 2012). This implies that organizations must have the capability to identify the symptoms of stress and must intensify efforts to reduce stress in the

workplace. This can be achieved through effective management and organization of work, as well as, healthy corporate culture (Vieet 2011; Weiss 2012). The above mentioned factors increase employee performance and reduce the propensity of healthcare workers to stressors.

However, stress arises in wide ranging work situations but becomes worse when employees sense they have little or no control over work processes. Work-related stress can be caused by poor work design, lack of recognition, rigid bureaucratic structure that is highly pervasive in the public service sector in Nigeria. Problems usually arise when employee's personal attributes or characteristics are not in synchronization with the demands of the job.

Hence, this study seeks to evaluate the relationship between role congruence and productivity of healthcare workers in public hospitals in Kwara State, Nigeria.

## **2.0 Literature Review**

### **2.1 Conceptual Review**

This section discusses some conceptual clarifications on stress management which is directly linked to employee productivity in hospital environment.

#### **2.1.1 Stress Management Dynamics and Employee Performance in Hospitals**

Most interventions to reduce the risk to health associated with stress in the

workplace involve both individual and organizational approaches. Individual approaches include training and one-to-one psychology services, clinical, occupational, health or counseling. They should aim to change individual skills and resources and help the individual change their situation. These techniques mirror the active coping (fight/flight) and rest phases (habituation) of the stress model presented earlier. (Boyaci, Sensoy, Beydag & Kiyak, 2014)

Training helps prevent stress through becoming aware of the signs of stress using this to interrupt behavior patterns when the stress reaction is just beginning. Stress usually builds up gradually. The more stress builds up, the more it becomes difficult to deal with analyzing the situation and developing an active plan to minimize the stressors learning skills of active coping and relaxation, developing a lifestyle that creates a buffer against stress practicing the above in low stress situations first to maximize chances of early success and boost self-confidence and motivation to continue.

A wide variety of training courses may help in developing active coping techniques for example, assertiveness, communication skills, time management, problem solving, and effective management. The prevention and management of workplace stress requires organizational level interventions, because it is the organization that creates the stress. An approach that is limited to helping

those already experiencing stress is analogous to administering sticking plaster on wounds, rather than dealing with the causes of the damage. An alternative analogy is trying to run up an escalator that's going down! Organizational interventions can be of many types, ranging from structural (for example, staffing levels, work schedules, physical environment) to psychological (for example, social support, control over work, participation).

The emphasis on the organization, rather than the individual, being the problem is well illustrated by the principles used in Scandinavia, where there is an excellent record of creating healthy and safe working environments. Assessing the risk of stress within the workplace must take into account the likelihood and the extent of ill health which could occur as a result of exposure to a particular hazard the extent to which an individual is exposed to the hazard the number of employees exposed to the hazard. The analysis of stressful hazards at work should consider all aspects of its design and management, and its social and organizational context. Although the priority is prevention, protective measures can be introduced to control the risk (Challa, 2021).

### **2.1.2 Concept of Stress Management**

Most hospital managers understand stress, intuitively. It is usually an emotional discomfort accompanied by feelings of not

being able to cope, that things are falling apart, that one is not in control or it may be just a general unease that all is not well, within an apparent cause. At the physical level, it includes loss of appetite, sleeplessness, sweating, ulcers and other signs and symptoms. In general, stress is the body's preparing itself for activity, without the activity following. As a consequence, the body system is thrown out of balance. Excess acid is secreted in the stomach; adrenalin appears in the blood; heart rates increase and other inappropriate reactions of chronic psychological preparation for action, without the action, leads to disease and disorder. Stress, when is fundamentally a psycho-physiological phenomenon, it has to do with our feelings and emotions and the way our bodies react to them. Cole (2002) described stress as the adverse psychological and physical reactions that occur in an individual as a result of their being unable to cope with the demands being made on them. Meshane and Hurrell (2001) also defined stress as an individual's adaptive response to a situation that is perceived as challenging or threatening to the person's well-being".

### **2.1.3 Role Congruence**

Role congruence is defined as the match between an individual's characteristics and the demands of his job. This suggests that absence of synergy between an individual's

traits or interests and the requirements of a job, may have negative impacts. Osinbajo et al (2016) stated that lack of role congruence may result in job-related stress. Hence, job satisfaction, commitment and performance in a chosen career vastly depend on an individual's personality being in sync with the environment within which the individual works (Adeniji *et al*, 2014). Wang, Huang, Davidson and Yang (2021) also asserted that the environment and personal traits are moderated by the role perceptions of the individual. Stress is an apparent outcome of a mismatch between an individual and job related demands.

Hospitals are generally expected to render quality and prompt service delivery to their patients but this is highly dependent on the caliber of healthcare workers who, to a large extent, determine the quality of services patients receive. Notably, resident medical and other healthcare workers play important roles in achieving the institutions' goals and objectives. But healthcare workers in hospitals may sometimes be burdened with the heavy workloads of providing quality service delivery to the community (Yakasai, Ugwa & Abubakar, 2013). In most public health facilities in Kwara State, like any other health institutions in Nigeria, much premium is placed on the doctors' performance, particularly in areas relating to proper clinical diagnosis, maintaining the confidentiality of patients, ensuring a good

relationship between colleagues and patients and accountability for any course of action in the organization. To sustain a high level of effectiveness in job performance, resident doctors would need a conducive environment such as call rooms and well-lighted environment aside from other motivating factors like good pay, job security, and the chances of promotion (Ogunnubi, Ojo, Oyelohunnu, Olagunju & 2018). Sometimes, when the working environment and other factors mentioned above are lacking or inadequate they may affect job performance or even lead to industrial action, strikes and the lives of the patients in the community that render services to will be in danger.

#### **2.1.4 Employees' Productivity**

It is hard to find a clear-cut definition of the concept in recent literature; rather it is often a subject of confusion. It is equated with labor productivity or sometimes even with labor intensity (Choobineh, 2017). The way we have defined the concept of employee productivity is an attempt to holistically consider the phenomenon. While individual studies focus on single aspects, for instance, work, labor, contributions, creativity, employees' well-being, e.t.c. The need to integrate singular factors is becoming increasingly important with a paradigm shift in manufacturing. Considering the concept, we focus more on micro-level productivity

of employees' which encompasses smaller systems on the level of individual industries and organizations.

Literature shows clear a difference between two major aspects of employee productivity. Those are labor productivity and broader set of economic factors. Together they should encompass enough factors to holistically or more comprehensively determine the employee's productivity concept (Walters, 2010; Taylor, et al., 2016). As outlined, existing literature often equates labor productivity with workforce or employee productivity and consequently causing the need for better classification.

In a similar vein, economic employee productivity covers a broader set of factors, which in turn determine the outcomes in employee productivity equation. Relevant factors across the field of economic and business sciences can be identified and included into considerations for economic employee's productivity based on the needs and goals of an organization. The idea behind this classification comes from Walters (2010), which includes both positive and negative factors. Factors with negative outcomes are (1) Low Cooperation, (2) Turnover, (3) Absenteeism, and (4) Administrative Inefficiencies. Suggested factors with positive outcomes are (1) Creativity and (2) Identity Processes.

Further, we should consider additional factors to describe broader and more comprehensive model. There is evidence that job satisfaction and happiness affect employee productivity (Oswald, et al., 2015). Also, employee engagement is considered as a key factor (Heintzman & Marson, 2005; Ellis & Sorensen, 2007; Markos & Sridevi, 2010). Moreover, we recommend that due to the changing manufacturing models, more additional factors need to be considered to encase the understanding of the phenomenon delivery which is one of the causes of stress for healthcare workers.

## **2.2 Empirical Review**

Mesa, Babera, Montesiros, Alarcon and Martin (2020) in their work titled stress in nursing graduates and healthcare assistants in surgical areas of hospital in Ghana, analyzed the stress level in nursing graduates and healthcare assistants in surgical areas of the public hospitals in Gran Canaria. Quantitative descriptive/observational statistics was used for the study. Result of findings revealed that workers and nursing graduates from the aforementioned units show a moderate level of stress, but institutions should intervene to minimize it as much as possible.

Jabar and Jasim (2021) studied job stress among nurses at Critical Care Units in Medical City Complex Hospitals in

Baghdad City, Iraq. Analysis and data collection was done using descriptive study and result of findings revealed that all staff nurses working in critical care unit suffer from stress; that nurses working in critical care units experience severe level of job stress (71%).

Azizkhani, Mehr, and Isfahani (2021) studied the effect of training on the promotion of emotional intelligence and its indirect role in reducing job stress in the emergency department in Iran. The study aimed at evaluating the role of training in improving emotional intelligence (EI) skills and assessing its indirect effect on reducing job stress in emergency medicine residents (EMRs). The study adopted quantitative research approach and used inferential statistics. According to the results of the present study, training for EI skills can play a significant role in improving EI and reducing stress in EMRs.

In the work of Nashath and Ilankoon (2020) which examined the perceived stress and factors associated with it among nursing undergraduates of the University of SriJayewardenepura, Sri Lanka. The study used cross sectional survey for data analysis and concluded that there is a great need of planning stress management programs to overcome stress related to the academic and clinical factors which were identified during the study. These beginners in nursing profession should be better equipped and

trained to face various challenges of the profession in the future.

Caponnetto, Magro, Inguscio and Maria (2018) investigated quality of life, work motivation, burn-out and stress perceptions benefits of a stress management program by autogenic training for emergency room staff. The paper examined the impact of autogenic and stress management training in emergency room staff's quality of life, work motivation, burn-out and stress perception in Italy. The study adopted test and pre-test and findings showed effectiveness of an autogenic and stress management training in the improvement of quality of life, work motivation, burn-out and stress perceptions for emergency department team.

Bhargava and Trivedi (2018) carried out a research on the causes of stress and stress management among youth in India. The study examined the sources of stress among youth and important, how they cope with the stress. The paper adopted quantitative techniques using regression analysis and results of the findings clearly showed that youth are stressed toward high level. The symptoms identified are being eating, depression and headaches are more among students. It is identified that among all factors, the main causes of stress among youth is relationship stress, financial and psychological stress.

Challa, Goyal & Naidu (2021) worked on perceived stress among post graduate students and its association with academic performance in Turkey. The objective of the study was to examine the reasons for stress among students and descriptive statistics/regression analysis was adopted for the study. Result of findings revealed that the dependent variable "student performance" is influenced by the factors called "emotional factors", "social factors", "financial factors" and "family factors".

Molek-Kozakowska (2020) asked, where were the organizations committed to stress management interventions? Work-related stress causes individual, societal and economic costs. Stress management interventions (SMIs) are implemented to decrease those costs, reduce the psychosocial harms and increase workers' productivity. It was carried out in Poland and made use of survey method. The study findings showed that 59% are aware of SMIs but only 30% implemented one within the last three years.

Patro and Kumar (2019) investigated the effect of workplace stress management strategies on employees' efficiency in India. The study focused on the espousal of stress management strategies by private enterprises and their influence on employees' efficiency. Descriptive and analytical research method were adopted for the work. Therefore, the results indicated

that stress program interventions and training and development have a significant influence on employees' efficiency.

## **2.3 Theoretical Review**

### **2.3.1 Job Demand-Resource Model**

The job demands-resources (JD-R) model (Demerouti, Bakker & Nachreiner, 2001) explains burnout symptoms on the basis of constellations of workplace aspects. The basic premise of the JD-R model is that employees may work in different work environments, but the characteristics of these work environments can be classified into two broad categories: job demands and job resources that are differentially related to specific outcomes. Looking at the subsystems of the health care systems is not autonomous and as such cannot be competitive. A participative health care with empowered patients and hospitals as providers is important to efficient service delivery and resolution of conflicts which most times lead to stress. Also, the model provides the researcher with the understanding of how work environment can create stress by way of burnout and exhaustion, and how resources such as job autonomy and social support can positively affect stress management which is one of the stressors in the Kwara state public health system.

However, despite the merits of JD-R model, scholars have advanced some criticisms of

the model. The first issue is the epistemological status of the model. The fact that all sorts of demands, resources and outcomes can be included in the model is strength as well as a weakness. Job demands are those aspects of the job that require intense physical or mental efforts and are therefore, linked to certain physiological and/or psychological costs (Demerouti et al., 2001). Deficiently, job design lead to dissipation of energy which causes exhaustion and in the long-run diminishes the health status of an employee. Examples include high work pressure, an unfavorable physical environment and emotionally demanding interaction with clients (Bakker & Demerouti, 2007). The JD-R model was introduced as an alternative to other models of employee well-being, such as the demand-control model and the effort-reward imbalance model. The authors of the JD-R model argued that these models 'have been restricted to a given and limited set of predictor variables that may not be relevant for all job positions. Therefore, the JD-R incorporates a wide range of working conditions into the analyses of organisations and employees instead of focusing solely on the negative outcome variables (e.g. burnout, stress ill-health and repetitive strain.). The JD-R model includes both negative and positive indicators and outcomes of employee well-being as this is the main issue which this study examines.

The model provides the researcher with the understanding of how work environment can affect staff performance by way of burnout and exhaustion, and how resources such as job autonomy and social support can positively affects service

**3.0 Methodology**

This study adopts a descriptive case study method using the deductive approach and relying on qualitative method common in management research where peoples’ behavioral patterns are involved. The qualitative method helps to solicit for information on the perspective and thought of the staff in the areas of stress management and its effects on employee productivity in public health facilities in Kwara State. The population of this study involved the staff of public healthcare facilities in Kwara State, Nigeria. The study focuses on HMB as a

result of peculiarities of nature of stress within the nature of case study that necessitated the adoption of qualitative approach which is in line with the submission of Yin (2013).

**3.1 Population of the Study**

The population of study comprises 2,139 members of staff across the 46 hospitals owned by the Kwara State government including all the cadres of both medical and other healthcare workers under the management of the Kwara State Hospital Management Board (HMB) as shown in the table below. In line with the qualitative approach, the study interviewed key respondents within the case study until saturation was attained at ten (10) respondents, a level which similar responses began to emanate.

**Population of Medical Doctors and Healthcare Workers**

S/N	Cadre	Population
1.	Medical Doctors	286
2.	Other Healthcare Professionals	1,853
<b>Total:</b>		<b>2,139</b>

Source: Hospital Management Board, 2023

**4.0 Thematic Analysis of the Interview Responses**

Figures below present the thematic analysis of the study, based on data collected from the in-depth interviews conducted with staff of public health facilities in Kwara State,

Nigeria. The analysis presents the answered the research questions which were explored through in-depth interview. The participants were interviewed with the aid of voice recorder which were transcribed and subjected to accuracy and grammar

check. The responses were then arranged based on the response pattern, the pattern were then categorized into themes and sub themes.

The aim of the thematic analysis is to examine and probe the opinion of the staff on stressors and employee productivity in public health facilities in Kwara State, and their mindset. The interview responses were analyzed and transcribed thematically using Nvivo 12 software, where each theme answers each research question. The result was anchored on stress management and employee productivity in public health facilities in Kwara State, and their goals. The study identified themes and sub-themes that described the constructs and variables under consideration. The population of study comprised 2,139 members of staff in the selected medical and health workers of

the public health facilities in Kwara State. From the analysis, four major themes were highlighted: employee engagement, employee commitment, service delivery and job satisfaction. Four sub themes were identified as determinants of the effect of role congruence as a variable of stress management on employee productivity. These include role congruence, ergonomics, job satisfaction, service delivery, and also, other sixteen sub-sub themes are identified.

The themes were designed to provide information, confirm the result and support the findings of the quantitative study. Figure below represents analysis of the various themes which are depicted by cases and nodes. In addition, the sample size is validated by what is called respondent validation,

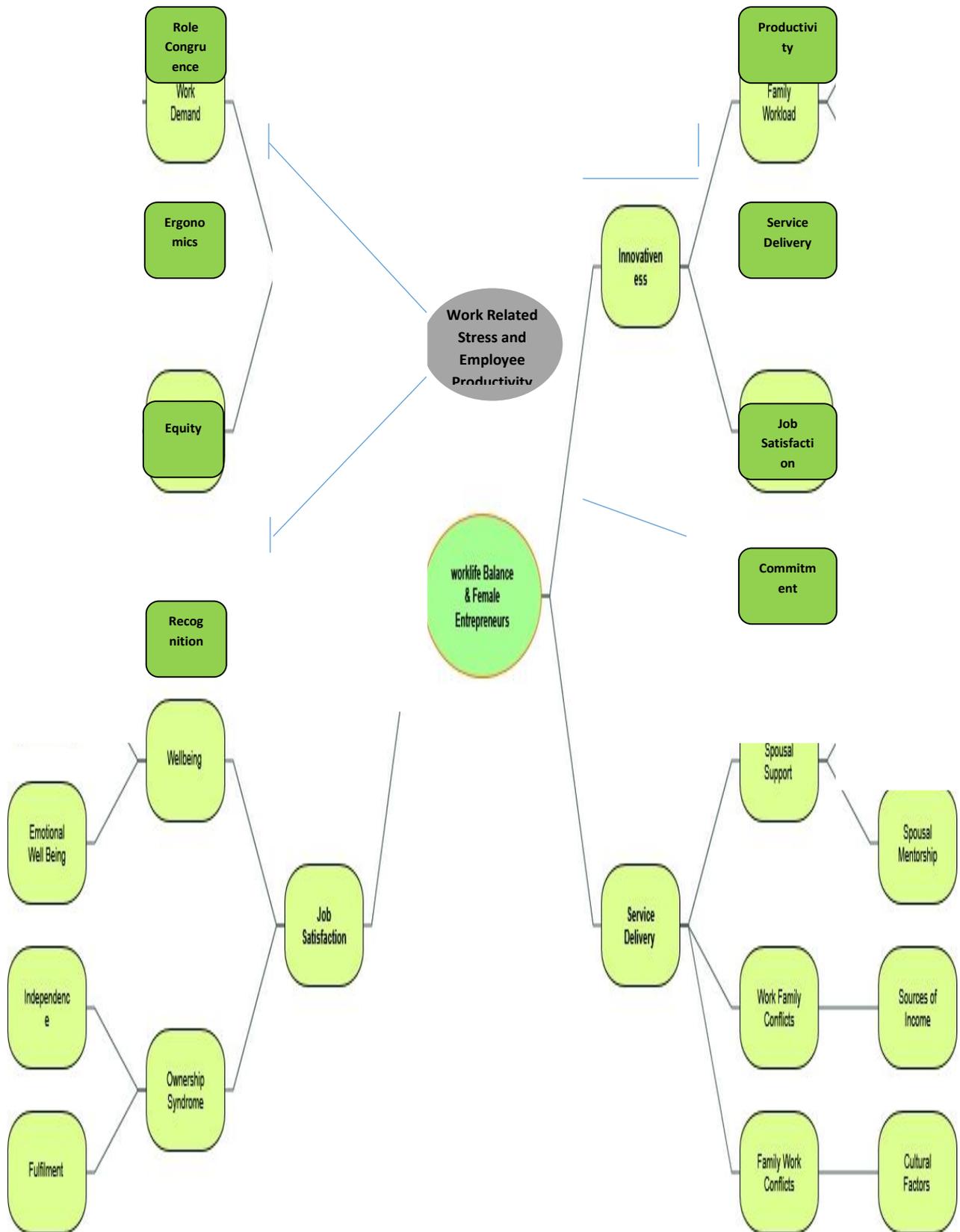
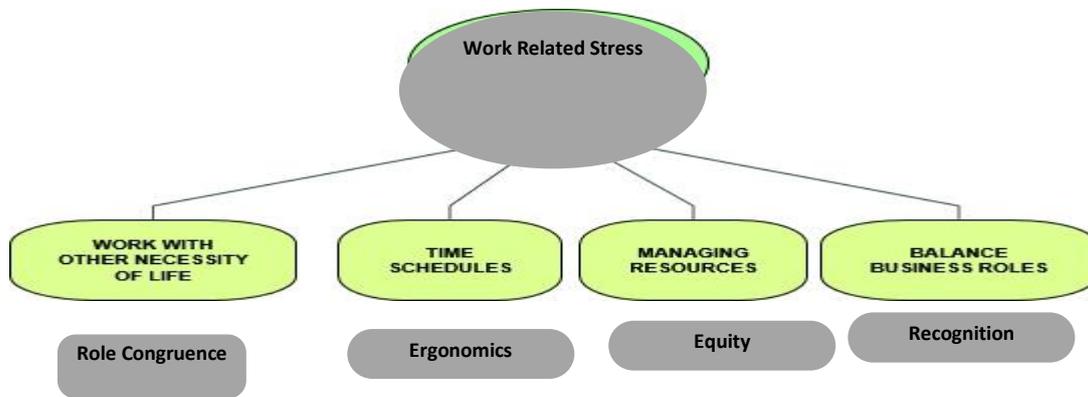


Figure 1: Thematic representation of the study

Source: Field Survey, 2023

To ensure validity of responses, the study ascertained the perception of the respondents on what work-life balance is. Various

responses were given as to what work-life balance represents. The analysis of the responses is presented in the figure below:



**Figure 2: Meaning of Work Related Stress and Respondents’ Perception**

**Source: Field Survey, 2023**

The perceptions were divided into four subsets which include role congruence, equity, ergonomics and employee recognition. For instance, on role congruence, the first respondent coded R1, described work related stress as *“the ability to match employee’s personal attributes or characteristics with his role at work”*. Also, respondent R5 viewed her work related stress as *“making sure the individual tasks and responsibilities align with his or her personal tendencies”*.

On perception that relates to ergonomics, respondents R2, R4, and R5 were captured. R2 in her response said *“It means making sure that the office space is conducive enough for workers to carry out their tasks effectively without any form of hindrance.”*

Also, respondents R4 submitted that *“organizations must ensure the safety and convenience of their employees at work place as regards office layout and design.”* R5 also viewed ergonomics as *“taking into cognizance the human’s physical, psychological, and general wellbeing of staff for productivity of work systems while assuring the safety as well.”* Respondent R9 in her opinion described work related stress as *“being not being able to do to have the desired time for one self as well as having too much job demands that affects healthcare workers emotionally and psychologically.”*

**Theme three: Work-Related Stress and Job satisfaction**

One of the major issue in work related stress

and job satisfaction is that of addressing their wellbeing which comes from within the employee himself. For instance, R7 submitted that *“it is stressful combining multiple tasks at work coupled with the economic situation in the land draining income rapidly, because the family must be*

*taken care of.* Lastly, R9 maintained that *“Sometimes, I look at my job and its demands and I feel I am not getting the desired satisfaction from life as there is no time to enjoy myself because of lack of time to rest as a healthcare worker*



**Figure 3: Thematic Representation of Job Satisfaction**

**Source: Field Survey, 2023**

On Job satisfaction, participants like R4 submitted that *“at times after all the stress, I find satisfaction in the fact that my profession is prestigious despite poor pay.”*

**Theme Four: Work Related Stress and Service Delivery**

Many respondents on work related stress

and service delivery as researchers agreed that when the interface of work-family is understood, health workers are always on their toes as emergencies come anytime, even at what is referred to as the odd-hours, thereby allowing healthcare workers little or no time to rest.



**Figure 4: Thematic Representation of Respondents on Work Related Stress.**

**Source: Field Survey, 2023**

## 5.0 Summary, Conclusion and Recommendations

The study conducted an investigation on the role congruence as a variable of work related stress on employee productivity of healthcare workers analyzing issues such as; ergonomics, service delivery, job satisfaction as well as other stressors which serves as impediments to productivity. It made use of qualitative approach which is case study, interviewing **ten (100)** key respondents in the process which brought out themes such ergonomics, job satisfaction and employee recognition. Finally, this study concluded that effective matching of individual employee's characteristics and attributes with the assigned roles, tasks and responsibilities is an essential determinant that influences healthcare workers' output and productivity. This is in line with the submissions of R1 who described work related stress thus "*the ability to match employee's personal attributes or characteristics with his role at work*". Also, respondent R5 viewed her work related stress thus: "*making sure the individual tasks and responsibilities align*

*with his or her personal tendencies*". Healthcare workers especially in these public health facilities should adopt stress free strategies in achieving higher productivity, as it is necessary to be emotionally stable, mentally sound and psychologically fit to achieve maximum performance for increased output.

Healthcare facilities must ensure that they take into consideration the safety, well-being and emotions of healthcare workers while assigning roles and responsibilities in order to exalt positive energies from employees which lead to increased productivity at workplace. In addition, the policy implication of this is for policy makers in Kwara State health sector, especially Hospital Management Board (HMB) to ensure roles are assigned to healthcare workers not only on the basis of competence but on individual's emotional and mental capacities for improved productivity.

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## Socio-Cultural Factors, Entrepreneurial Policies and Sustainable Development In Nigeria

By

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### Abstract

*One of the major focus of successive governments in Nigeria is for the country to attain sustainable development. One of the key tools that could be used to achieve this goal as identified by many development scholars is the development of entrepreneurship ecosystem. Consequently, over the years, Nigeria government has put vested interest in the development of this sector by initiating series of public policies and programmes. However, the sector is yet to grow appreciably despite the enormous efforts put up by successive governments. This paper argued that the persistence neglect of the relevance of socio-cultural factors in the formation and implementation of entrepreneurial policies in the country could be counted as one of the major factors militating against the effective workability of such policies. Arguing through sociological lens, this paper utilized rational-conceptual approach to assert the fact that there is the need to give socio-cultural elements prominent consideration in the formulation and implementation of entrepreneurial policies so that people's socio-cultural realities such as family socialization patterns, culture of business orientations, educational background could be captured. The study concluded that socio-cultural factors play significant role in determining the success or otherwise of any entrepreneurship policy. Based on the findings, the study recommended that such socio-cultural factors should often be identified and considered in the formulation and implementation of entrepreneurial policies to enable the vibrancy of such policies that it would enhance sustainable socio-economic development in the country.*

**Keywords:** Entrepreneurship, Policies, Sustainable Development, Sociologist, Socio-cultural Elements. JEL: Y

### 1.1 Introduction

In today's world, development is increasingly becoming one of the basic necessities of modern living. Although, discussions on development attracted the attention of scholars over time, the concept became hotly debated issue in the last millennium (Olatunji, Issah & Zakariyau,

2014; Falabi & Olatunji, 2014; Regina, 2021). Development is an important aspect of social living that widely assumed human society is not expected to be static, rather it is expected to be continually changing and that the pattern of the change should be

progressive (Asobie, 2001; Shankar-Rao, 2019).

As a result of this, dedicated interest was given to the phenomenon of development and practical experience has shown that experiencing development in country does not just occur (Okpara, 2005; Ogbonaya-Igwe, 2011) rather it is being caused by series of factors. Accordingly, series of factors were adduced as responsible for optimum development of any society. Factors such as economy, political activities, level of vibrancy of the educational institutions and so on are believed to have strong determining effects on development of a society (Okoroafor, 2009; Sarkin-Daji, 2009). Consequent upon, development is seen as an all -encompassing holistic phenomenon, a multi-dimensional and generally inter-related reality; it is related to all spheres of life vis-à-vis political, economic and cultural (Olatunji, 2009; Olatunji, Lawal & Raji, 2014).

In contemporary word, entrepreneurship has been universally seen as the engine of development, it has been conceived that entrepreneurship and development are generally inter-related. This is because through vibrant entrepreneurship activities in a society, the scope of capital formation and industrialization is facilitated (Afolabi, 2009). Essentially, entrepreneurship forms the basis for the wealth of nations because

other factors of production such as capital, land and labour are passive, entrepreneurship is the active agent who accommodates capital, exploits natural resources, builds social, economic institutions and brings about sustainable development (Olatunji, 2015).

In realization of the above, virtually all governments around the world put special focus on developing the entrepreneurship sector and as such, series of efforts are geared towards this direction. Nigeria is one of the countries that vests its interest in developing entrepreneurship sector over the years, this is well manifested in the series of policies and programmes that successive governments in the country initiated in this direction (Gunu, 2013; Olatunji, 2015). However, despite the enormous entrepreneurial policies developed in the country (Okoroafor, 2009); coupled with the huge financial resources committed on the same act, Nigeria is yet to attain an envious level of entrepreneurship development.

The World Economic Forum's Global Competitiveness Report (2018) classified Nigeria to be a factor-driven economy because the country is yet to be entrepreneurially vibrant enough. According to Ács (2009), entrepreneurship activities are generally low in a factor driven economy because innovation accounts for only about 5 percent of economic activities

in factor-driven economies. Consequent upon the above, it is worrisome that despite the enormous efforts geared towards entrepreneurship development in Nigeria, it still remained abysmally low in the country, and this made the country to be classified among the countries with low level of entrepreneurial activities.

One would be tempted to ask why is the level of entrepreneurial operations in Nigeria still low? In an attempt to answer this question, this paper opines that one of the major reasons why entrepreneurial policies continue to fail in Nigeria is perhaps as a result of non-consideration of socio-cultural dynamics in the making and implementation of entrepreneurial/ economic policies generally.

There is high possibility that socio-cultural factors have significant effects on the level of workability of the entrepreneurial policies because human being is largely a product of a socio-cultural background (Olatunji, 2021). According to Loucks (1981), entrepreneurship is culture embedded and, therefore entrepreneurship policies should be interested in understanding the cultural dimensions of entrepreneurial operations. Drawing from the above and from sociological point of view, this paper attempts to bring out the prominent position of socio-cultural factors in the general dynamics of entrepreneurship and that there

is the need to henceforth give this factor a prominent consideration in the formulation and implementation of entrepreneurial policies in the country.

## **2.1 Conceptual Issues**

Some relevant concepts are reviewed in order to aid better understanding and bring to limelight the focus of this paper.

### **2.1.1 What is Entrepreneurship?**

This section attempts to explain who an entrepreneur is. However, recent literature suggests that giving an exact and generally acceptable definition of an entrepreneur is utterly impossible because the definition of who an entrepreneur is largely depends on the context, the age and intellectual, theoretical cum practical angle from which one sees it. This is why Kilby (1971) compares entrepreneurship to the imaginary animal, 'the Heffalump'. The animal according to Kilby is a large animal with varying features in which no one can actually give a perfect description of. According to Olatunji, (2013), the concept seems to defy any generally accepted definition because the ones given could be considered as variants of definitions depending on the field and the area or angle at which individual researcher sees it. Schumpeter (1951) laments that there is no good English word equivalent to encompass

the specific meaning of the French term ‘entrepreneurship’.

The term is originally derived from the French verb “entrepense” which means to undertake, to attempt, to try in hand, to contract for, or to adventure, to try, to risk (Abimbola, 2007). According to Bygrave & Hofer (1991), the simplest definition of entrepreneurship is an individual that organizes, operates, and takes on the risks of a business venture. In the view of Olagunju (2004), an entrepreneur is a person or an organization that establishes a business venture for profit or other possible aims such as social, welfare, growth etc. (Olatunji, 2014). Nwangwu (2007) opines that entrepreneurship is a process of bringing together other factors of production, which include land, labour and capital so as to provide a product or service for public consumption. According to Okpara (2005), entrepreneurship is the ability to create a non-existing business entity from nothing; it could further be described as initiating, building and watching an enterprise.

Ronstadt (1988) sees entrepreneurship as the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some products or services. The product or service may or may not be new or unique but value must be infused into

it by the entrepreneur by receiving and allocating the necessary skills and resources (Olatunji, 2015). From the foregoing, it is logical to describe entrepreneurship as an economic reality whereby individual or group are able to manage economic resources, manage such resources to the extent of converting them to an object of economic value capable of creating economic value for the agent in question and driving home sustainable development in a society.

What could be inferred from the definitions of entrepreneurship above is that entrepreneurship is a multi-dimensional concept, a developmental tool that involves the creation of business venture through any possible means and it has been seen as a very

*Entrepreneurship constitutes the ultimate basis for the wealth of nations; capital, land and labour are passive factors of production, entrepreneurship is the active agent who accommodate capital, exploits natural resources, builds social, economic and political institutions and moving forward national development.*

### **2.1.2 What is sustainable Development?**

Although sustainable development is the term to be reviewed, such review would be more meaningful if one examines the

concept of development first. The term development is a holistic and complex term which cannot be sufficiently defined with just some few words. The meaning of the term is relative, contextual and complex, it is multi-dimensional and generally inter-related; it is related to all spheres of life vis-à-vis political, economic and cultural aspects of living (Thomas, 2015; Olatunji, 2012). Conceptually, development is seen as very synonymous to progressive change, a situation of metamorphosis whereby an object changes or moves from simple to complex-advanced stage. With this evolutionary conception of development, the thinking is that development is natural with every physical organic phenomenon be it living or non-living things (Shankar-Rao, 2019).

From the contemporary point of view, societal development has to do with the complex and simultaneous changes that occur in every facets of the society viz-a-viz the individual, group and the entire society (Schaefer, 2006). According to Walter cited in Olatunji, Lawal and Raji (2014), development can be examined from two major perspectives: the individual and societal perspectives. At the individual level, development is the ability of an individual to utilize its innate capacities to the extent that they become useful to themselves and the society. From societal or

macro perspective, development be defined as the ability of the people of a society to harness their natural and human resources in such a way that life becomes easier and better to them in all ramifications (Olatunji et. al, 2012). In this respect, development cannot be worthwhile for the generality of the people except it processed elements of sustainability.

According to Robert, *et.al* (2005), sustainable development as a term is widely used in today's world. It has become a common word used by national and international organizations such as the United Nations, African Union and so on. The term has also assumed popularity among political and economic stakeholders all over the world. Although, the notion lacks a uniform interpretation; it is important to note that the term is quite relative because the notion of sustainability varies among scholars from various disciplines and the actualization of sustainable development in any nation cuts across various sectors of the society (Yusuf et. al, 2014).

As early as the 1970s, the word sustainability was employed to describe an economy in equilibrium with basic ecological support systems (Tatyana, 2004; Centre for Environment Education 2007; Ugoh, 2008). The term was first used by Brundland Commission (1987) in their famous Report titled "Our Common

Future". The Report conceived sustainable development as a form of societal transformation that is all inclusive and meets the needs of the present without disturbing or hindering the ability of future generations to meet their own needs. This definition sees a developed society as that which meets the needs of the present generation; which considers the rich and the poor in the process; would not have a devastating effects on present and future human ecology and that, which would not affect the upcoming generations negatively (Yusuf et al., 2014). The World Conservation Union (1991) describes sustainable development as the general improvement in the quality of life while living within the carrying capacity of the ecosystems. Toman (1999) defines it as system of positive change in the society which takes cognizance of the whole sectors of the society and which will not be causing damage to the eco-system for the present and future generations.

According to Ugoh (2008), the concept of sustainable development is the efforts at improving the environment or natural resources for the purpose of improving the quality of human life in such a way that the needs of the future generation are not jeopardized. In this regard, sustainable development is an organizing principle for human life on the planet earth. Sustainable development ties together concerns for the

carrying capacity of natural systems with the social and economic challenges faced by humanity (Adebayo, 2013).

### **2.1.3 The Meaning of Public Policy**

One of the operational dynamics of governance is to initiate ideas and guidelines on how living will be convenient and continual for all and sundry. Technically, those ideas and guidelines are referred to as public policy (Katarina, et.al, 2021). Thus, public policy is a general statement containing guidelines, procedures or specific standards to be achieved regarding a goal or an objective of government. These policies to a large extent are introduced for various reasons ranging from economic, political or social (Pointblank, 2023). Although economic justification remains one of the major reasons for the introduction of most government policies because development of any society is so much attached with its economic operations.

Naturally, group of people or the society at large are confronted with various socio-political cum economic problems that need to be tackled. In such instance, the group of individuals or the country at large would have to come up with some specific plans or blueprints to follow in order to overcome such problem (Olaniyi, 2016). If such challenge is private to an individual, it is a personal/individual policy and if it has to do

with a specific public, it thus became a public policy.

Thus, public policies are initiated to solve specific socio-political, educational or economic problems or challenges. Roberts and Edward (1991:98) describe it as “a set of decisions taken by a political actor or group concerning the selection of goals and the method of attaining them relating to a specific situation”. This definition underscores the fact that public policy is always initiated by political actors of a state and it is always directed at the public especially when it has been observed that there is a problem in a particular sector of the society (Barret & Fudge, cited in Olaniyi, 2014; Katrina, et.al, 2021). This is why policies are labelled as political policy, economic policy, and educational policy and so on. However, because these policies are made for the people of the society in general, they are sometimes referred to as social policies.

## **2.2 Relevance of Entrepreneurship for Development**

In a world where ideas drive economies, entrepreneurship and development are often seen as inseparable (Olatunji & Falabi, 2014). Through the process of entrepreneurship, it is possible to augment the scope of capital formation, employment generation and facilitate industrialization of a country

on one hand. On the other hand, entrepreneurship acts as a powerful tool of income generation, raising productivity through innovation, facilitating transfer of technology, playing key roles in commercializing new products, redistributing of wealth and income, earning foreign exchanges, promoting social welfare and the like (Nwagwu, 2007).

This is the reason why there has been a great deal of attention paid to the subject of entrepreneurship. This has also been because economic analysts have discovered that small firms contribute considerably to economic growth and vitality (Oyekanmi, 2014). According to Abimbola (2007), entrepreneurship occupies an important place in the process of development, it has become a key concept in social and human development discourse; researchers considered it a prominent factor in the economic and human development (Agu, 2010; Olatunji, 2013; Olatunji et al, 2014; Olatunji, 2015).

In his famous work, *The Protestant Ethic and the Spirit of Capitalism*, Weber (1930) posited that the great development experienced in the Western world was a result of entrepreneurial features present in those societies. In his own view, Afolabi (2009) opines that entrepreneurship in small and medium scale industries are effective instrument in the economic and industrial

development of many countries including Nigeria. Generally, entrepreneurship has the tendency of charging a business environment due to the inherent challenges involved in being a successful entrepreneur. Entrepreneurs make economic structure very dynamic and extremely competitive due to the rapid creation of new firms and the exit of 'old' stagnant and declining firms (Acs, 2009).

Dynamic entrepreneurs look for growth; they do not only have a vision but are also capable of making it happen (Oyekanmi, 2014; Olatunji, Muhammed, Lawal & Raji 2016). In this way, economic vitality of a country largely depends on the overall level of entrepreneurial capacity (Agu, 2010). In other words, entrepreneurial development invariably leads to economic vitality and economic viability of a country is no doubt a necessary condition for its social emancipation; without it, other important factors that make living attractive in certain areas, such as education, health, social services, and housing, transport facilities, flow of information and so on, cannot be developed and sustained in the area on the long run. In Nigeria, entrepreneurship functions in the following areas: stimulation of economic growth; replacement of crumbling state-owned enterprises, a means of employment generation and an avenue for

empowering the disadvantaged portion of the population (Abimbola, 2007).

In Nigeria, the large manufacturing sector has failed to meet the expectation of people of the country because of its poor contribution to Gross Domestic Product (GDP), and provision of employment (Oyekanmi, 2014; NACIMA, 2012). It is often believed that the large scale industrial sector contributes immensely to employment generation especially in the developing countries, however, a closer observation reveals that the small scale entrepreneurs rate of employment far exceeds the number of people employed by the large scale industries. This is because the small scale entrepreneurs could provide source of employment for the teeming population of youths in the country (Afolabi, 2009). Onwumere (2000) noted that SMEs are major sources of employment for a large majority of people, especially households in cities. They have a higher capacity for generating employment, as their modes of operation are more labour intensive.

In Nigeria, this sub-sector accounts for about 70% of the total industrial employment, generates about 6.2 percent of the aggregate employment in the United States, 22.3 percent in China, about 80 percent in India, as well as about 50 percent employment in Israel (Olatunji, 2015). In another observation, Aruwa (2012) is of the

view that small and medium scale enterprises represent about 90% of the industrial sector in Nigeria. Also, the Nigerian Bureau of Statistics discovered that 97% of businesses in Nigeria are small scale oriented and it contributes 50% of employment and also 50% of the industrial output in Nigeria (National Bureau of Statistics, 2019). The foregoing discussion is brought to bear in order to explicitly show the relevance of entrepreneurship in the general process of development of any nation. The discussion also reveals one of the possible reasons why successive governments in Nigeria vest their interest in developing entrepreneurship by initiating series of entrepreneurship oriented policies.

### **2.3 Existing Policies Geared Towards the Development of Entrepreneurship Sector in Nigeria**

Since the turn of the new century, entrepreneurship is increasingly being universally recognized as critical resource in the economic development process of a country and in view of this, development of

entrepreneurship received serious attention among the policy makers, planners and development economists as a strategy of economic growth. As a result of these factors, various levels of government (local, state and federal), international agencies and non-governmental organizations in Nigeria instituted measures that are meant to enhance entrepreneurial activities. Such measures according to Abimbola (2007) are categorized into two broad categories:

1. Policies and programmes aimed at training, stimulating, developing and enhancing the productive capacities of entrepreneurs, while the second category
2. Consists of measures aimed at providing stress-free credit facilities for entrepreneurs.

On the whole, the aggregate goals of these policies and programmes include among others, stimulation of economic development, empowerment of the disadvantaged portion of the population, employment generation and poverty reduction (Abimbola, 2007). Very notable among these policies are highlighted further:

**Table 1: Selected Economic Policies Geared Towards Entrepreneurship Development in Nigeria**

	<b>Programme</b>	<b>Objective</b>
1	Agricultural Development Project (ADP)	The main purpose of the ADP is to stimulate increased food production and enhance the income of the rural population.
2	National Directorates of Employment (NDE)	Responsible for vocational skills development and small scale enterprises programmes designed to combat unemployment
3	National Economic Reconstruction Fund (NERFUND)	Provides long-term loans at concessionaire interest rates to promote small and medium scale industrial projects
4	Family Economic Advancement Programme (FEAP)	Established to provide micro facilities for entrepreneurs
5	People's Bank and Community Bank Programmes	Designed to make banking services more accessible and extend credit to the poor.
6	Better Life Programmes/ Family Support Programme (BLP/FSP)	Aimed at providing micro-credit facilities for women entrepreneurs
7	National Poverty Eradication Programme (NAPEP)	Aimed at providing vocational skills development and small scale enterprises programmes designed to combat unemployment
8	National Empowerment and Economic Development Strategy (NEEDS)	To eradicate poverty and unemployment
9	Youth Enterprise with Innovation (YOUWIN)	Business plan competition aimed at job creation by encouraging and supporting aspiring entrepreneurial youth in Nigeria to develop and execute business plans.
10	SURE-P	Provision of employments for unemployed graduates through internship programs and creating database of unemployed youth and reduce social vulnerability among the youths in the country.
11	TradaMoney	Initiated to boost working capital of market women
12	N-Power	N-Power provides a structure for the acquisition of skills as well as personal and career development, thereby enabling the youths to work and earn

**Sources: Abimbola, (2007) and Olatunji, (2012; 2022)**

Despite all these calculated efforts to enhance entrepreneurial development to combat the problems of unemployment and poverty among the teeming population of the country, one will, however, observe that entrepreneurship has not fared well in meeting all of these aspirations. According to Agu (2010) and World Bank Report (2012), many households in developing countries

such as Nigeria crumble under the weight of poverty. While some households are able to remain intact, many others disintegrate as men were unable to adapt due to their failure to earn adequate incomes under harsh economic circumstances.

Although, poverty is a universal phenomenon, it has been observed that Nigeria is one of the poorest countries in the world (Human Development Index

Report, 2010, 2011; 2012). Nigeria's rank in the Human Development Index remained low at about 0.462, being the 137th out of 174 countries (Human Development Bureau 2011). According to 2012 survey by the National Bureau of Statistics (BOS), 64 percent of Nigerians live in poverty. In the area of employment generation, Obasanjo (2013) describes the alarming rate of unemployment in Nigeria as 'a waiting time bomb'. In other words, if this problem continues unabated, it would lead to other social problems. Going by the data in the Table 2, one realizes that the Nigerian economy is plagued by unemployment problem. In fact, some observers are of the opinion that the 23.9 percent in 2013 is misleading and the rate should be well over 50 percent (The Nation, 2012; Osalor, 2013; This Day, 2013). Several indigenous newspapers (such as The Punch, Vanguard, The Nation) reported an increase in the figure of unemployed in the country.

For instance, This Day Newspaper in January 2014 puts it at 29.5 percent for 2013 and it is expected to increase by at least 3 percent in 2014 and the misery rate is projected at 38 percent for 2015 (Chima, 2014). Going by the above, it is observed that, despite the numerous programmes and policies, unemployment still remain a serious social problem in the country. According to the Nigeria Bureau of Statistics (2022), rate of youth unemployment in Nigeria as at 2022 is put at 42.5 percent.

Based on the above observation notwithstanding, it is important to reiterate that that entrepreneurship development is still one of the veritable tools to combat many of these social anomalies because of

its tendency to eradicate poverty and generate employment. As noted above, Nigerian government introduced series of policies to boost entrepreneurship and despite all these efforts; the sector has not improved considerably and this poses a serious threat to the socio-economic well-being of the people.

#### **2.4 Why Socio-Cultural Factors should be Considered in Development and Implementation of Entrepreneurship Policies**

One unique distinction between human and animal is the possession of culture by the former. The existence of culture among human groups makes humans one of the most superlative beings created by nature (Harris, 1995). According to Olatunji (2009), technically, culture represents all of human behaviours and attitudes that are learned (directly or indirectly, overtly or covertly) through the process of social interaction and which are inherited by generations. Culture is so much attached to human life that human animal is often classified as a cultural being. Culture is a very important phenomenon in human life because it determines how an individual acts, thinks and behaves in any social setting. Because cultural elements determine human behaviour, social scientists always find it difficult if not impossible to study, understand or predict the behavioural pattern of people in any human society

around the globe without studying their culture (Olatunji et.al, 2014).

Considering socio-cultural factors as important in formulation and implementation of entrepreneurial policy is necessary because firstly, entrepreneurship is culture bound and secondly, cultural contexts determine its processes and dimensions. The importance of socio-cultural dynamics in entrepreneurship could be reflected upon through the works of classical scholars in economics, (e.g., Schumpeter, 1934), sociologists, (e.g., Weber, 1930), and psychologist (e.g., McClelland, 1961). These scholars observe that groups in the society differ in entrepreneurship due to the differences existing in their socio-cultural orientations and background. Olatunji (2015) reports that culture is important because it influences the motives, values, and beliefs of individuals in the society.

Human life is so attached to culture that the history of human animal becomes incomplete without the reckoning of cultural development in human history (Harris, 1995). In this regard, Harris (1995) describes the human being as essentially a cultural being. This is so because our culture defines our life from the cradle to the grave - it determines the kind of language we speak, the type of food we eat, the type of clothe we put on, the type of house we live in and even the type of work we do (Olatunji, 2015). The influence of culture in human life is so numerous that

it influences all of our actions and inactions, attitudes and behaviours.

Culture from the point of view of Tylor (Oke, 2003:8), can be defined as “the complex whole of man’s acquisition of knowledge, moral, belief, art, custom, technology and other capabilities and habits which are learned by man in the process of social interaction and which are shared and transmitted from generation to generation.” This definition shows that culture has both material and non-material aspects and every member of a society acquires it (Otié & Ogionwo, 2003).

Generally, differences and similarities in cultural patterns and practices across societies most often account for the differences and similarities in human societies worldwide. In essence, the cultural pattern of a society influences the way they do things generally (Baskerville, 2003) and it also determines the attitudes and behaviours of the entrepreneur (Swedberg, 2001).

What could be inferred from the above is that human being is a product of their socio-cultural milieu. However, it is important to note that although culture is a universal phenomenon and at the same time particularistic in practical sense. This means that cultural elements vary across societies. It is as a result of this that it is important to always consider the cultural context of different societies when designing any programme or a public policy for such societies. In relation to our present purpose, it is important to note that entrepreneurial policies work well and very fine for some societies in the world today. Categorically, it could be said that the development

of countries such as Britain, Germany, France and Japan could be largely credited to success of their entrepreneurial policies. In addition, it has been widely observed that the secret of the emerging economies such as China, India and Korea is largely attributed to the vibrancy of their entrepreneurial programme (The Global Competitive Report 2018). However, these policies have not worked so efficiently that it could be used to bring about sustainable entrepreneurial development in Nigeria. This can largely be attributed to the fact that these policies are copied from other countries hook line and sinker without considering the socio-cultural peculiarity of the Nigerian situation and its people. Abimbola (2007) observe that policy makers focused more on economic factors that result in growth rather than the peculiar socio-cultural dynamics of the entrepreneur as well as the socio-cultural system within which growth occurs. Socio-cultural factors are important components in the lives of a people and given the deep-rooted and pervasiveness of this in the Nigerian societies; socio-cultural variables such as family background; educational background; social capital, belief system, cultural conception of work, achievement orientation and so on must therefore feature as important factors in entrepreneurial research. This serves to bridge the gap of inadequate consideration for sociological factors in entrepreneurial policy formulation and implementation in Nigeria.

### **3.0 Concluding Remarks**

The foregone discussions argued about the relevance of entrepreneurship in bringing

about sustainable development in a country and clearly showed that entrepreneurship has been the magic wand which many countries in the world use to emancipate itself from the shackles of poverty and economic underdevelopment. Based on this conviction, successive government in the country over the years have continued to initiate and implement series of entrepreneurship policies with the longrun aim of eradicating poverty and bringing about sustainable development in the country, however, it is saddened that despite the huge amount of resources dedicated to the implementation of these policies, not very much have been achieved. Based on this observation, this paper posited that one of the major reasons why many of these policies failed to achieve its objectives is as a result of the fact that socio-cultural background issues are not always or very much considered in the process of formulation and implementation of these policies.

In line with the foregone submission, this paper strongly called for the consideration of socio-cultural elements in the process of formulation and implementation of entrepreneurial policies henceforth. In order to achieve this, government at all levels as well as non-governmental organizations interested in entrepreneurial empowerment should henceforth seek for the collaboration

of sociologists especially those in the area of Sociology of Development and Economic Sociology to participate in the process. Involving sociologists in the process does not mean other related academic stakeholders such as Economists, Business Administration and Finance experts would be exempted from the exercise. Rather, it suggests that sociologists should also be considered part and parcel of the process. Involving sociologists in the process would enable the policy makers to understand the peculiar importance of socio-cultural dynamics of the people in the workability of the policy generally. For instance, empirical sociological researches at indigenous level in Nigeria showed that socio-cultural factors have significant effects on entrepreneurial

event, entrepreneurial behaviour and the entrepreneurial performance (see Abimbola 2007 and Olatunji, 2015). Specifically, Olatunji (2015) found that sociological factors such as family background, cultural conception of work, social capital, and belief in spirituality have significant effects on behavioural dispositions of entrepreneur such as innovation, achievement orientation and internal locus of control. Conclusively thus, there is the need to give socio-cultural elements prominent consideration in the formulation and implementation of entrepreneurial policies in Nigeria.

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## Effects of Performance Appraisal Systems on Organizational Citizenship Behaviour in Benue State Civil Service

By

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### Abstract

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*This study investigated the effects of performance appraisal system on organization citizenship behaviour (OCB), among civil servants of Benue State, Nigeria. The target populations in this study were thirty six thousand and eleven (36,011) civil servants of Benue State. The Sample of three hundred and eighty (380) respondents were selected using Krejcie and Morgan (1970) sample size table. The principal instrument used for data collection in the study was questionnaire, which was designed with 5-point Likert scale. Multiple regression analysis was employed to test the hypothesized model of the study. The findings of this study revealed that procedural justice and distributive justice have positive and significant effects on OCB of civil servants in Benue State, Nigeria. The findings also indicated significant positive effects of goal setting on OCB of civil servants in Benue State. The study suggested that employers in the sector should be encouraged to acquire as well as engage in what their employees value and change certain principles and practices can lead to lower attrition. And this increases civil servant engagement in activities that support their organizations' effectiveness.*

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**Key words:** Organizational Citizenship Behaviour, Performance Appraisal, Procedural Justice, Distributive Justice, Goal setting

### Introduction

Human resource management (HRM) acts as a personnel unit which houses human resources or employees as a part of the assets owned by a company, private or public, to get a better understanding of the life of that organization (Fajar & Soeling, 2017). Organizational citizenship behaviour (OCB) plays an essential role for the success of an organization because it helps people work together, influences organizational performance and improves group performance (Sumarmi & Tjahjono, 2021; Prihatiningtias & Julianto, 2020; Bhatti, Ju & Akram, 2019). In today's highly competitive

environment, organizations are accentuating on areas that can help them achieved competitive edge and OCB is one of such areas (Sujono, Tunas & Sudiarditha, 2020; Khan & Ullah, 2019; Tabassum, 2016). Organizational citizenship behaviour (OCB) is considered to be a vital factor in increasing employee productivity and efficiency in organizational setting (Sheeraz, Ahmad, Ishaq & Nor, 2020; Bizri, 2018; Chelagat, Chepkwony & Kemboi, 2015; Rahman & Chowdhuri, 2018). OCB gains considerable importance in today's era of competition with the emergence of many

multinational companies as every organization's management desires that its employees display high OCB. These behaviour benefits the organization as a whole. In such scenario, citizenship characteristics in a person are welcome to Benue State Civil Service. The benefit of OCB is not to a single party but fosters an overall development of the organization (Sumarmi & Tjahjono, 2021; Rahim & Mohammed, 2018; Fasanmi, 2018).

Performance appraisal (PA), (Procedural Justice, Distributive Justice and Goal Setting) is among the most important human resource practices. It has increasingly become part of the more strategic approach to integrating HR activities and business policies and may now be seen as a generic term covering a variety of activities through which organizations seek to assess employees, develop their competence, enhance performance and distribute rewards (Guyo, 2015). Performance appraisal remains central to how employees are scrutinised, rewarded and sometimes penalized by managers. Moreover, employees are often castigated as ineffective, or even harmful, to both individuals and organizations (Evans & Tourish, 2017). In today's competitive business world, it is understood that organizations can only compete with their rivals with innovation which should be

achieved through managing their human resources well. Human resource system can become more effective by having a valid and accurate appraisal system used for rating performances of the employees (Gupta & Parmar, 2018; Panjiyar, 2015).

Worldover, public service plays a central role in any country's socio-economic development. However, it has been characterized by low work performance and poor service delivery. The problem indicators include: absenteeism from work, lateness, corruption, theft, a high rate of complaints, low quality work output and high turn-over of professional staff (Mwema & Gachunga, 2014).

Nigeria, like most countries in the sub-Saharan region and in contrast to many countries in the developed world, has not yet productively integrated organization citizenship behaviour (OCB) into its government agencies. The effective use of performance appraisal systems may provide an opportunity to build trust in organizations.

### **Literature Review**

#### **Concept of Organizational Citizen Behaviour**

Organ (2012) defined OCB as voluntary behaviour, choice and individual initiatives that are not directly related to the formal reward system of the organization, but as a whole can improve the organizational effectiveness. OCB is set of discretionary

workplace behaviours that exceed one's basic job requirements; they are behaviours that go beyond the call of duty (Jahangir, Akbar & Haq, 2014). Bolino, Turnley and Bloodgood (2012) defined OCB as employee behaviour that influences interpersonal trust and facilitates organizational operation by going beyond official requirements which are not directly recognized by the formal reward system without expecting any rewards and appreciation. OCB involves some elements of behaviour such as helping others, volunteering for extra duties, and adhere to the rules and procedures in the workplace. These behaviours are constructive, meaningful and positive social behaviours (Agustiningih, Thoyib & Noermijati, 2016; Khan & Ullah, 2019; Prihatiningtias, & Julianto, 2020).

Organizational Citizenship Behaviours (OCBs) are a special type of work behaviour that are defined as individual behaviours that are beneficial to the organization and are discretionary, not directly or explicitly recognized by the formal reward system. These behaviours are rather a matter of personal choice, such that their omissions are not generally understood as punishable. OCBs are thought to have an important impact on the effectiveness and efficiency of work teams and organizations, therefore contributing to the overall productivity of

the organization (Nuzula & Nurmayana, 2020; Rubel & Rahman, 2018). Alfato and Bima (2018) argued that OCB is held to be vital to the survival of an organization. Organizational citizenship behaviour can maximize the efficiency and productivity of both the employee and the organization that ultimately contribute to the effective functioning of an organization. The extent to which employees go the extra mile for their organizations can be captured by organizational citizenship behaviours (OCBs) defined as those organizationally beneficial behaviours and gestures that can neither be enforced on the basis of formal role obligations nor elicited by contractual guarantees or recompense (Rahim & Mohammed, 2018).

### **Performance Appraisal System**

Performance Appraisal (PA) as a technique of measuring employee competitiveness is not a modern phenomenon. In managing a large scale labour force, the first notable initiative in systematic performance appraisal was introduced by Robert Owen in his Lanark textile mills during the 1800s. As part of the Owen's appraisal, a piece of wood was placed before each employee's machine each day marked with a different colour, which conveyed the supervisor's opinion of that worker's performance the previous day. Thus, Owen's appraisal system could aggregate annual assessment

of employee performance and recorded it in a 'book of character'. However, that assessment process was subjective, which is one of the main criticisms that still haunt the performance appraisal systems today. Performance appraisal in the modern organization is a system by which employees are provided with feedback about their performance which help the organization to make decisions about rewards and sanctions (Umoh, 2011). Performance Appraisal systems need to be effective in improving or sustaining employee performance and development, otherwise, they are a tremendous waste of time and resources spent on development and implementation (Zingheim & Schuster, 2007; Ojo, Oyeniya & Adeniji, 2007). Performance Appraisal is the most powerful instrument for mobilizing employees in organizations in order to achieve the strategic goals of the organizations. Formal appraisal has become a widespread instrument of human resource management (Rahman, 2016). Schuler, Farr and Smith (2008) opined that performance appraisal is a step where the management finds how effective it has been at hiring and placing employees.

### **Distributive Justice**

Distributive justice refers to perceived fairness of the outcomes that an individual receives from organization. Outcome may

be distributed on the basis of equality, need or contribution and individuals determine the fairness of distribution through comparison with others. Distributive justice is conceptualized as the fairness associated with decision outcomes and distribution of resources. The outcomes or resources distributed may be tangible (e.g., pay) or intangible (e.g., praise). Perceptions of distributive justice can be fostered when outcomes are perceived to be equally applied (Ambrose & Schminke, 2007). Distributive justice relates to people's perceptions of the fairness of the outcomes they receive relative to their contributions and to the outcomes and contributions of others (Jameel, Ahmad & Karem, 2020; Silva & Madhumali, 2014).

**H0<sub>2</sub>:** Distributive justices does not significantly affect organization citizenship behaviour (OCB) among civil servants in Benue State

### **Procedural Justice**

Procedural justice is defined as the sense of justice received regarding the processes and procedures used to make distribution decisions. Procedural justice is also related to the process or procedure for distributing awards (Sujono, et al., 2020; Prihatiningtias & Julianto, 2020; Kreitner & Kinicki, 2014). Procedural Justice refers to participant's perceptions about the fairness of the rules and procedures that regulate a process.

Whereas distributive justice suggests that satisfaction is a function of outcomes, procedural justice suggests that satisfaction is a function of process. Among the traditional principles of procedural justice are impartiality, voice or opportunity to be heard, and grounds for decisions. If organizational processes and procedures are perceived to be fair, then participants become more satisfied, more willing to accept the resolution of that procedure and more likely to form positive attitudes about the organization (Rahim & Mohammed, 2018).

**H0<sub>1</sub>:** Procedural justice does not significantly affect organization citizenship behaviour (OCB) among civil servants in Benue State.

### **Goal Setting**

Goals have a pervasive influence on employee behaviour and performance in organizations and management practice (Locke & Latham, 2002). Nearly every modern organization has some form of goal setting in operation. Programmes such as management by objectives, high performance work practices, management information systems, benchmarking, stretch targets, as well as systems thinking and strategic planning, include development of specific goals. Goal setting is one of the popular therapies in organizational psychology. The theory of goal setting was

introduced by Locke in 1968 and has enjoyed a substantial review in the psychological arena over the past three decades (Tubbs, 2014).

Goal setting involves the development of an action plan designed to motivate and guide a person or group toward a goal (Grant, 2012). It is a motivational technique used by both individuals and organizations to improve performance (Hinsz, 2015). Goal setting is in fact the underlying explanation for all major theories of work motivation. Managers widely accept goal setting as a means to improve and sustain employee performance. Based on hundreds of studies, the major finding of goal setting is that individuals who are provided with specific, difficult but attainable goals perform better than those given easy, non-specific, or no goals at all (DuBrin, 2012).

### **Theoretical Framework**

#### **Social Exchange Theory**

Greenberg and Scott (1996) asserted that the social exchange theory is the most commonly used in studies on predicting work behaviours in the field of organizational behaviour. The theory proposes that employees exhibit positive or negative behaviour as a response to the treatment they receive from their employers. According to Greenberg and Scott (1996), the central aspect of this theory is the norm of reciprocity. A strong social exchange

relationship between the employer and employee helps maintain positive working relationships and elicits positive sentiments such as satisfaction commitment and trust in employees which in turn move employees to engage themselves in OCB. Thus, employers need to treat their employees fairly such that they can reciprocate the good gesture in their behaviour such as organizational citizenship behaviour which contributes to organizational influence Effectiveness (Guyo, 2015).

**Goal Setting Theory**

According to Locke and Latham (1968), goal setting theory formed the foundation for the conceptual framework. This theory was developed by Locke in 1968 in order to explain human actions in specific work

situations. The theory argues that goals and intentions are cognitive and wilful, and that they serve as mediators of human actions and that our needs and our goals are mediated by our values, which determine what is beneficial for us. The two most important findings of this theory are that setting specific goals (example, I want to earn \$500 or more a month) generates higher levels of performance than setting general goals (example, I want to earn more money), and that goals that are hard to achieve are linearly and positively connected to performance: The harder the goal, the more a person works to reach it.

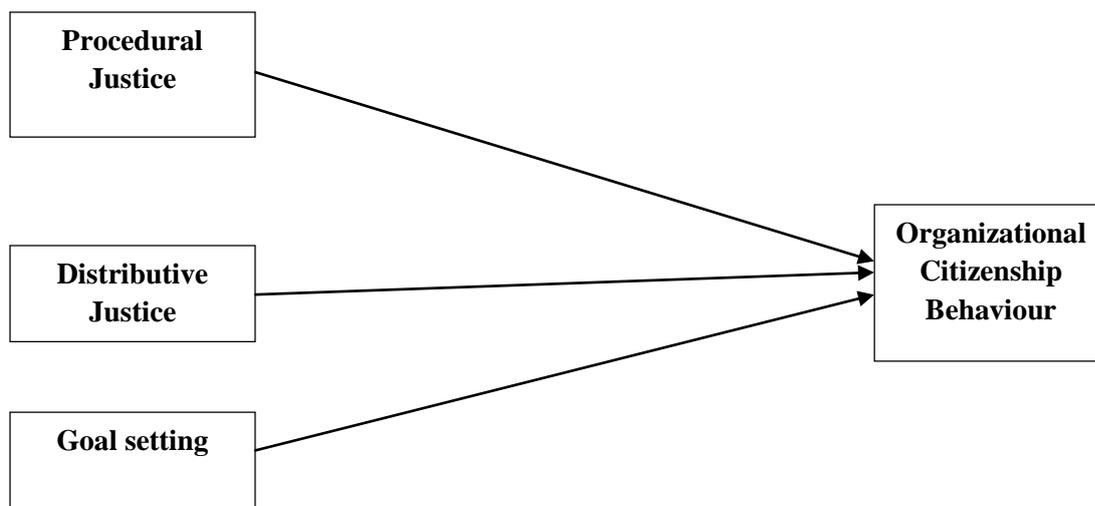
**H0<sub>3</sub>** Goal setting does not significantly affect organization citizenship behaviour (OCB) among civil servants in Benue State

**Research Framework**

Dimensions of Performance Appraisal

Independent Variable (IV)

Dependent Variable (DV)



**Figure 1: Proposed Research Framework**

**Table 1: Population and Sample Size**

S/N	Ministries	Number of Staff	Proportionate Sample
1	Animal and Forestry Resources	1500	16
2	Commerce and Industry	1000	11
3	Culture and Tourism	700	7
4	Education	11,818	125
5	Health	1500	16
6	Information	900	9
7	Justice	2497	26
8	Land and Survey	3788	41
9	Local Government & Chieftaincy	836	9
10	Ministry of Agriculture	4372	46
11	Ministry of Finance	1500	16
12	Ministry of Works	900	9
13	Solid Mineral	900	9
14	Special Duties	900	9
15	Water Resources & Environment	1000	11
16	Women Affairs	700	7
17	Youth and Sport	1200	13
<b>Total</b>		<b>36011</b>	<b>380</b>

Source: Field Survey (2019)

**Results and Discussions**

**Results**

**Multiple Regression Results and Hypothesis Testing**

**Table 2**

Results of Regression Analysis

Hypotheses	Variables	Unstandardized Coefficients		t-value	p-value	Decision
		B	Std. Error			
H0 <sub>1</sub>	Procedural Justice	0.135	0.054	2.174	0.030	Rejected
H0 <sub>2</sub>	Distributive Justice	0.194	0.100	2.745	0.006	Rejected
H0 <sub>3</sub>	Goal Setting	0.573	0.074	3.074	0.002	Rejected
F value	6.756					
F Sig.	0.000					
R <sup>2</sup>	0.600					

Source: Field Survey, (2019)

Dependent Variable: Organization Citizenship Behaviour

Note: \*: p< 0.05; \*\*: p<0.01; \*\*\*: p<0.001

Table 2 showed that all the three predicting variables were found to have significant relationship with OCB; procedural justice (t = 2.174, p< 0.030); distributive justice (t = 2.745, p< 0.006); goal settings (t = 3.074, p<

0.002). Therefore, to reject the null hypothesis, the P value has to be lower than 0.05 i.e. p<0.05 at 95%. Consequently, the three null hypotheses were rejected (H0<sub>1</sub>, H0<sub>2</sub> and H0<sub>3</sub>). Below are three hypotheses

that have been formulated for this research study and how each was discussed as follows:

### **Hypothesis One**

**H0<sub>1</sub>:** Procedural justices does not significantly affect organization citizenship behaviour (OCB) among civil servants in Benue State. To test this hypothesis, the result from coefficients in the Table 2 was used as presented below.

Multiple regression:  $\beta = 0.135$ ,  $t = 2.174$ ,  $p < 0.030$

Based on the multiple regression results, the Beta value contribution of procedural justices is positive with 0.135. The p-value is less than 0.05 hence, we reject the null hypothesis. The research therefore, concludes that procedural justices has influence on organizational citizenship behaviour.

### **Hypothesis Two**

**H0<sub>2</sub>:** Distributive justices does not significantly affect organization citizenship behaviour (OCB) among civil servants in Benue State. To test this hypothesis, the result from coefficients in the Table 2 was used as presented below.

Multiple regression:  $\beta = 0.194$ ,  $t = 3.074$ ,  $p < 0.002$

Based on the multiple regression results, the Beta value contribution of distributive justices is positive with 0.194. The p-value is less than 0.05. Hence, we reject the nul

hypothesis. The research therefore concludes that distributive justices has influence on organizational citizenship behaviour.

### **Hypothesis Three**

**H0<sub>3</sub>:** Goal setting does not significantly affect organization citizenship behaviour (OCB) among civil servants in Benue State. To test this hypothesis, the result from coefficients in the Table 2 was used as presented below:

Multiple regression:  $\beta = 0.573$ ,  $t = 3.074$ ,  $p < 0.002$

Based on the multiple regression results, the Beta value contribution of goal setting is positive with 0.573. The p-value is less than 0.05. Hence, we reject the nul hypothesis. The research therefore concludes that goal setting has influence on organizational citizenship behaviour.

### **Discussion of Findings**

#### **Procedural Justice and Organization Citizenship Behavior (H0<sub>1</sub>)**

The result showed that the effect between procedural justice and OCB is statistically significant ( $p < 0.01$ ). This signifies that procedural justice (PJ) is positively and significantly influencing the OCB of civil servants in Benue State Nigeria. According to the results, employees not only engage in citizenship behaviours when they perceive the rewards and outcomes to be sufficiently fair but also laid importance to the

procedures that led to the allocation and distributions of the outcomes. This also confirmed that most of the civil servants take time to advise or mentor a co-worker', 'shared knowledge with co-workers' and obey informal rules that are developed to maintain order within their organization. Much literature support the contention (Prihatiningtias & Julianto, 2020; Salam, 2020; Sheeraz et al., 2020; Sujono, Tunas & Sudiarditha, 2020; Sumarmi & Tjahjono, 2021; Sulaya, 2019; Alfato & Bima, 2018; Yilmaz & Bokeoglu, 2018) that procedural justice have positive effect on OCB.

#### Distributive Justice and Organization Citizenship Behavior (H0<sub>2</sub>)

The result of the current study indicated that distributive justice is positively and significantly related with OCB. And this gain the support of many recent literature (Nuzula & Nurmaya, 2020; Sumarmi & Tjahjono, 2021; Yilmaz, 2020; Salam, 2020; Sujono, et al., 2020; Prihatiningtias & Julianto, 2020; Khan & Ullah, 2019; Sulaya, 2019) which confirmed that distributive justice has positive effect on OCB and distributive justice becomes one of the crucial variables to affect the OCB.

#### Goal Setting and Organization Citizenship Behavior (H0<sub>3</sub>)

The finding of this study also showed that the goal setting significantly affects OCB of civil servant in Benue State Nigeria. The

findings of this study is consistent with result of Taylor (2013) which indicated that goal specificity influenced OCB indirectly through psychological empowerment and goal difficulty raised OCB directly and through the partial mediating effect of psychological empowerment. Olusoga's, Fasanmi's and Olubunmi's (2018) results revealed that there was a significant contribution of corporate ethical values to work attitudes and significant mediating roles of both corporate goal setting and goal orientation in the contribution of corporate ethical values to work attitudes.

In this perspective, several studies confirmed the practical utility of goal setting as a method changing of behaviour and performance (Taylor, 2013; Grant, 2012; Latham & kinne, 2011). A study on utilizing feedback and goal setting has demonstrated that feedback and goal setting can be used to improve the performance appraisal skills (Wayne & Nemeroff, 2009).

#### **Conclusion**

As stated earlier, this research examined the significant effect of performance appraisal system on OCB of civil servants in Benue State, Nigeria. In addressing this, relevant data were collected and analysed and from the analysis, results were obtained and discussed. From the discussion of the results, the following conclusions were drawn:

1. The finding revealed that procedural justice have significant positive effect on the OCB of civil servants in Benue State, Nigeria. Therefore, this study concluded that the civil servants' perceptions about the fairness of the rules and procedures that regulate a process enhance employee to voluntarily engage in activities that promote the effectiveness of the organization but such motivations are not explicitly rewarded by the organizations.
2. Distributive justices also have significant positive effect on the OCB of civil servants in Benue State, Nigeria. Therefore, this study concluded that distributive justices generally lead to OCB of civil servants in Benue State, Nigeria.
3. The finding indicated a positive and significant effect between goal setting and OCB of civil servants in Benue State. This implies that the process of setting goals for the evaluation and measurement of individual performance for a given period influences civil servants. Therefore, this study concluded that the goal setting as evaluation and measurement of individual performance lead to an improvement in OCB of civil servants in Benue State, Nigeria.

### **Recommendations**

In line with the findings and conclusion of the study, the following recommendations were made:

Based on the finding which confirmed that procedural justice have significant positive effect on OCB of civil servants in Benue State. This study understands how the role of the supervisors and the organization can inspire citizenship behaviours among civil servant of Benue State Nigeria. It is therefore, recommended that employers should be encouraged to acquire as well as engage and enlighten what their employee's value and how modifying certain principles and procedures could lead to lowering attrition and increasing satisfaction and eventually going beyond from what their job description requires.

Based on the results of the present study, it is recommended that organizations should review their existing strategies or formulate new ones especially regarding human resources practices to enhance employees' perceptions of fair treatment. In this context, organizations may pay special attention to provide equal financial benefits to equal job positions, review their promotion criteria and develop policies considering fairness issues.

The findings suggested that public managers can promote OCB from goal-setting plans to ensure that goal-setting plans are well designed and implemented. In particular, challenging goals that are accepted by employees can motivate higher levels of performance. Another goal-setting plan to

improve employees' views of their work environment and their individual capacity so that they feel psychologically empowered at work.

### **Suggestions for Further Studies**

An overall of three components performance appraisal system (procedural justice, distributive justice and goal setting) were

adapted as independent variables and OCB was used as dependent variable. Therefore, further study should endeavour to measure the effects performance appraisal system (procedural justice, distributive justice and goal setting) on the employee performance in other industry in order to determine their resultant effects in such sector.

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## Determinants of Business Success: An Analysis of Islamic Perspective

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### Abstract

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*This study explored the determinants of business success from an Islamic perspective, focusing on the relationship between Allah's decree, human endeavor and individual or business success. The paper is conceptualised based on library research method, involving a comprehensive review of literature from the Quran, books of Hadith, and scholarly journals. The views of Islamic scholars were obtained and analyzed to justify the relationship between the variables under investigation. The study revealed that there are specific success factors that individuals and businesses should identify and utilize to achieve success because success is a combination of effort and reliance on Allah and taking necessary means and making efforts in order to achieve it. The study also revealed that action is necessary in shaping an individual's destiny, and individuals need to actively participate and make choices as such choices affect their journey both in this life and the hereafter. The study recommended that individuals and businesses should identify and utilize the success factors discussed while exerting effort towards their goals. It further advised against pessimism regarding Allah's decree and encourages perseverance and confidence in working towards success.*

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**Keywords:** Allah's decree, Business success, Human endeavour, Business Success factors.

### Introduction

Islam is a comprehensive way of life that encompasses all aspects of human existence, sourced from two main doctrines; the Quran and Sunnah. It aims to bring happiness, freedom, dignity, peace, and prosperity to Muslims and the world at large. However, many misconceptions about Islam have led to confusion and hindered Muslims from enjoying the benefits of their faith and prevented others from benefiting from interacting with them. To better understand and appreciate the teachings of Islam, it is

essential to study the Quran and Sunnah, as well as the rich history and diverse practices of sound Muslim communities especially during the prophet's life time, that of his companions and those that follow them. This helps to dispel common myths and stereotypes about Islam and showcase the religion's ability to address global issues, such as economics, politics, social justice, and healthcare.

Islam is a moderate religion that emphasizes the importance of relying on Allah (SWT)

alone for success and sustenance. This means that Muslims are encouraged to work hard and seek lawful means to achieve their goals, but they must also recognize that their ultimate success is in the hands of Allah (SWT). As such, Islam condemns practices such as visiting soothsayers, relying on magicians, and believing in superstitions, as they go against the fundamental principles of Islamic belief. The Prophet Muhammad (PBUH) stated, "Whoever visits a soothsayer or magician and believes in what they say has disbelieved in what was revealed to Muhammad" (Abu Dawud: 3904, Ibn Majah: 639, authenticated by Ibn Hajar in *Fathul Bari* 10/217 and Albani in *Sahih Abi Dawud*. See *Sahih Muslim* 2230). The Prophet Muhammad (PBUH) emphasized the importance of striving for success, stating, "Strive/try your best and know that no one becomes successful with just his act (endeavor), except when Allah has mercy on him" (*Muslim*: 2664, 2816, *Ibn Majah*: 79). This Hadith highlights the importance of working hard towards one's goals while recognizing that success ultimately comes from Allah's mercy. Therefore, Muslims should not be complacent or rely solely on their own efforts, but rather strive to do their best while putting their trust in Allah (SWT). In Islam, there is a concept known as "Assabab" which means cause. This means

that while Allah (SWT) has power over everything and can make anything possible, He has also created a system where certain actions or efforts can lead to certain outcomes. Allah (SWT) has laid out a plan for each individual, and success or failure is not solely determined by luck or chance but by one's own efforts and the blessings of Allah. As mentioned in the Quran, "And whoever strives only strives for [the benefit of] himself. Indeed, Allah is free from need of the Worlds" (*Ankabut* 29:6).

The argument presented is based on Islamic principles, which are supported by various Quranic verses and prophetic traditions. For example, the Quran states, "You will not be rewarded, judged except from your deeds" (*Yasin* 36:32), and "Verily, man is in loss, except those who believe and do righteous good deeds, and recommend one another to the truth and recommend one another to patience" (*Asr* 103:1-3). Similarly, the Quran emphasizes the importance of seeking Allah's favor and remembering Him, as stated in *Jumaa* 62:10.

Prophetic traditions also support the idea that success in life is closely linked to one's deeds and actions. For instance, the Prophet Muhammad is reported to have said, "Everybody will enter paradise, except those who denounce it" (*Bukhari*: 7280). He also said, "The paradise is surrounded by undesired things and the hellfire is

surrounded by desired things" (Bukhari: 6487, Muslim: 2822-2823). Additionally, the Prophet emphasized the importance of striving and doing one's best, stating: "strive and try your best and know that nobody will enter paradise because of his deeds" (Muslim: 2816).

The objective of this study is to explore the interplay between three key concepts in Islam - Allah's decree, human effort, and business success - and to analyze their relevance in shaping an individual's future and level of achievement in business. Specifically, the study aims to examine the relationship between these concepts, as well as to identify the factors that contribute to variations in success levels among individuals and businesses.

### **Literature Review**

This section covers various concepts relevant to the study variables. It reviews the concept of destiny, the power of Allah, the tradition of Allah, business success, business success factors, level of business success, relationship between Allah's decree, human endeavour and business success, and the scholars' view on the relationship.

### **The Concept of Destiny**

In Islam, the belief in destiny, or Qadr, is a fundamental aspect of faith. Muslims are expected to believe that everything that happens, whether good or bad, is part of

Allah's divine plan. This belief is rooted in the Quran, which states, "We have created all things in measure, and Our command is but one, like a glance of the eye" (54:49-50). The hadith, or prophetic tradition, further emphasizes the importance of belief in destiny. It is reported that the Prophet Muhammad said, "Be mindful of Allah, and He will take care of you. Be mindful of Him, and you shall find Him with you. If you ask, ask of Allah; if you seek help, seek it from Allah. Know that if the whole world were to gather together in order to help you, they would not be able to help you except if Allah had written so. And if the whole world were to gather together in order to harm you, they would not harm you except if Allah had written so" (Tirmidhi: 2516).

Furthermore, it is confirmed from the prophetic tradition that in the beginning, Allah created a pen and asked it to write all that is going to happen. This hadith was narrated by Tirmidhi (2155, 3319) and Abu Dawud (4700) and authenticated by Albani. In short, belief in destiny is an integral part of the Islamic faith, and Muslims are expected to accept and act upon it. The Quran and prophetic tradition provide evidence and guidance on this belief.

According to Islamic belief, Muslims are obligated to believe in destiny, whether good or bad, as Allah has already planned everything that will happen up to the last

day. The Prophet Muhammad (peace be upon him) confirmed this in a hadith narrated by Abu Hurairah:

"Verily, Allah has written down the good deeds and the bad ones. Then He explained it [by saying that] he who has intended a good deed and has not done it, Allah writes it down with Himself as a full good deed, but if he has intended it and has done it, Allah writes it down with Himself as from ten good deeds to seven hundred times, or many times over. But if he has intended a bad deed and has not done it, Allah writes it down with Himself as a full good deed, but if he has intended it and has done it, Allah writes it down as one bad deed." (Bukhari: 6126, Muslim: 131)

Additionally, it is believed that each person's creation is assembled in the womb of their mother and an angel is sent to put the "Ruh" (soul) into the fetus. The Prophet Muhammad (peace be upon him) said:

"Verily, the creation of each one of you is assembled in the womb of his mother for forty days in the form of a drop, then he becomes an alaqah (clot of blood) for a similar period, then a mudghah (a lump of flesh) for a similar period. Then an angel is sent to him, who breathes the soul into him and who is commanded to write four things: his means of livelihood, his life span, his actions, and whether he will be blessed or wretched." (Bukhari: 3036, Muslim: 2643)

These hadiths confirmed the Islamic belief in predestination and the idea that everything that happens in life is according to the plan of Allah. For an entrepreneur and business manager, believing in the predestination of their success and accepting whatever Allah chooses for them can provide assurance and comfort in times of hardship and setbacks. It can also encourage them to work hard and strive for excellence while acknowledging that the ultimate outcome is in the hands of Allah.

### **The Power of Allah**

Allah is the only creator, sustainer, giver, and denier. No one can deny what He has given, and no one can give what He has denied. He has power over everything and can do and undo whatever, whenever, wherever, and however, He wishes. He decides what people will have in terms of wealth. As stated in the Quran (Yasin 36:82), "Verily, when He intends a thing, His command is 'Be' and it is." Allah's power is limitless; He created Adam from sand without a father and mother, as He created Jesus without a father. He also made someone who begged his relatives to burn his body and pour the ashes into water successful (Bukhari: 3478, Muslim: 2757). Allah also made Jesus and the son of an adulterer who accused Juraij, to speak while they were in their cradle (Bukhari: 1206, Muslim: 2550). Therefore, Allah can make a

venture, entrepreneur, or manager successful or the most successful. This knowledge enables an entrepreneur or manager to be a positive thinker and optimist, following Allah's guidance and trying their best towards success, knowing that Allah is the one who gives objectively.

### **The Tradition (Sunnah) of Allah**

It is important to note that Allah's will and power are the ultimate determinants of everything. However, Allah also observes certain patterns and traditions, including the concept of "as-sabab" or cause and effect. This means that things happen for a reason or condition, and individual efforts and actions can determine one's future.

The Quran mentions Allah's approved practices among those who lived before and that these practices do not change (Al-Ahzab 33:62). Additionally, Allah provides the means to achieve ends (Al-Kahf 18:84). In a prophetic tradition, a wounded companion asked if he could forgo a ritual because of his wound, but his colleagues said he must still observe it. He did so and died, and the prophet criticized his colleagues for causing his death (Abu Dawud: 337). Therefore, every human endeavor, including business, has success factors that can be identified and acquired by a business manager. These success factors will be explained in the next section.

### **Business Success**

The concept of success is one that is universally recognized and sought after by individuals and societies alike. Conventionally, success is often associated with achieving material wealth, fame, or power. However, the Islamic perspective on success goes beyond these conventional markers and emphasizes a more holistic and spiritual understanding of success.

In Islam, success is defined as achieving the ultimate goal of human existence, which is to attain nearness to Allah and gain His pleasure. This is achieved through the practice of faith, good deeds, and moral conduct. In the Quran, success is mentioned numerous times in the context of those who believe and follow Allah's guidance. For example, in Surah Al-Baqarah, it is mentioned that those who believe in Allah and perform good deeds will have success in this life and the Hereafter (Quran 2:277).

In Islam, success is not limited to individual achievements but also encompasses the well-being and success of the community as a whole. The Prophet Muhammad (peace be upon him) emphasized the importance of working for the betterment of society and promoting social justice as a means of achieving success. He said, "The best people are those who are most beneficial to others" (Sahih Bukhari).

The concept of success in Islam also recognizes the importance of balance and moderation in all aspects of life. Islam encourages individuals to strive for success in this world while also keeping in mind their ultimate goal of attaining success in the Hereafter. The Prophet Muhammad (peace be upon him) said: "The world is a provision and the best provision in the world is a good spouse" (Sunan Ibn Majah).

Similarly, business success is generally defined as achieving the desired outcomes in terms of profits, growth, and sustainability. In conventional business literature, success is measured by financial performance indicators such as revenue, profit margin, return on investment, and market share. However, in Islamic business literature, success is defined not only in financial terms but also in terms of ethical and social responsibility (Kasri et al., 2021).

In Islam, the concept of business success is based on the principles of Tawhid (Oneness of Allah) and Akhlaq (moral values). According to Islam, business success is achieved when it is based on the principles of Halal (lawful) and Tayyib (goodness), and when it contributes to the well-being of society (Kasri et al., 2021).

The Islamic concept of business success is based on the idea of Barakah, which means blessing and abundance. Barakah is believed to come from Allah and is not limited to

material wealth but also includes blessings in health, family, and community (Alserhan & Brink, 2015). Islamic scholars suggested that business success is achieved when it is based on ethical and moral values, and when it benefits society as a whole, rather than just a select few individuals (Kasri et al., 2021). In Islam, business success is also linked to the concept of Rizq (provision). Muslims believe that Allah is the provider of Rizq, and that it is pre-determined by Him. However, it is also believed that individuals can increase their Rizq through honest and hard work, and by seeking Allah's blessings (Alserhan & Brink, 2015).

### **Business Success Factors**

In conventional business studies, success factors are the key components or strategies that contribute to the achievement of business goals and objectives. These factors can vary depending on the nature and size of the business, but generally include factors such as financial resources, market demand, customer satisfaction, efficient operations, and effective leadership (Prajogo & Ahmed, 2006).

In Islam, success in business is also believed to be influenced by a combination of factors. In addition to conventional factors, there are also spiritual and ethical factors that are emphasized in Islamic teachings. These include factors such as honesty, fairness, trustworthiness, and fulfilling one's

obligations (Hassan, 2002). The concept of Barakah, which refers to Allah's blessing and favor, is also important in Islamic business success. Barakah is believed to bring success and prosperity to a business as a result of the owner's good intentions and actions, and their adherence to Islamic principles (Ahmad & Haron, 2002).

Moreover, Islamic business success is also associated with the concept of Tawakkul, which refers to trust and reliance on Allah. Muslims are encouraged to put their trust in Allah and have faith in His plan, while also taking necessary actions to achieve their goals (Al-Attar & Halim, 2012). This means that in Islamic business, success is not solely determined by external factors, but also by the individual's efforts and reliance on Allah.

### **Level of Business Success**

In Islamic perspective, the level of business success is deeply rooted in the understanding of Allah's decree and the belief that He has ultimate power and control over everything. The Quran states, "Whenever He decrees a matter, He only says to it, 'Be,' and it is" (Quran 36:67). This verse highlights the absolute authority of Allah and His ability to bring about any outcome He wills.

According to Islamic teachings, while Allah's decree plays a significant role in determining the ultimate outcome, the level

of individual or business success is also influenced by various factors such as efforts, commitments, seriousness, and resources deployed. The Quran states, "Indeed, Allah will not change the condition of a people until they change what is in themselves" (Quran 13:11). This verse emphasizes the importance of individual effort and initiative in shaping one's own destiny.

Individuals or businesses may differ in their levels of success based on the varying levels of effort and commitment they exert. It is unlikely for two businesses or individuals to achieve the exact same level of success due to the unique circumstances and opportunities they encounter. Allah states, "It is Allah who opens the doors of provision for whomever He wills" (Quran 42:12). This verse indicates that Allah bestows His blessings and provisions according to His wisdom and will.

Islamic scholars have discussed the concept of effort and its relationship to business success. Sheikh Abdul Rahman Al-Sa'adi, in his book "Tafseer Al-Sa'adi," explained that human effort is an integral part of Allah's decree and that individuals should strive and work diligently to achieve their goals (Al-Saadi, 2012). Sheikh Muhammad Al-Sha'rawi, in his book "Tafseer Al-Sha'rawi," emphasized the importance of sincere effort and utilizing available

resources while relying on Allah's guidance and support (Al-Sha'rawi, 2003).

Additionally, Islamic teachings encourage individuals and businesses to seek Allah's help and guidance in their endeavours. The Prophet Muhammad (peace be upon him) said, "If Allah guides someone through you, it is better for you than the whole world and everything in it" (Sahih Muslim). This hadith highlights the importance of seeking Allah's assistance and relying on His guidance for success.

In conclusion, the level of business success in Islamic perspective is determined by a combination of Allah's decree and the efforts, commitments, seriousness, and resources deployed by individuals or businesses. While Allah's decree is ultimate and cannot be changed, human effort and initiative play a crucial role in achieving success. Islamic teachings emphasize the importance of striving diligently, utilizing available resources, and seeking Allah's guidance and support in all business endeavours.

### **Allah's Decree, Human Endeavour and Business Success**

In Islamic theology and philosophy, there is a widely debated topic regarding the relationship between Allah's decree and human endeavour. The concept of divine predestination, known as Qadr in Arabic, refers to the belief that Allah has predetermined the fate of every individual

and event in the universe. Nevertheless, human endeavor or free will is the ability of individuals to make their own choices and actions that can potentially change their destiny.

According to Islamic beliefs, Allah's decree is absolute and final, and no human action can change it. The Quran emphasizes this by stating, "And never say about anything, I will do this tomorrow without adding, 'If Allah wills'" (Quran 18:23-24). Muslims believe that Allah has predetermined the life span, sustenance, and all other events in the life of every individual.

However, the concept of human endeavour or free will is also emphasized in Islamic teachings. The Quran states, "Verily never will Allah change the condition of a people until they change it themselves" (Quran 13:11). This verse highlights the importance of human effort and action in changing one's destiny. Muslims are encouraged to work hard, make the right choices, and seek guidance from Allah to achieve their goals. Islamic scholars debated the relationship between Allah's decree and human endeavour. Some scholars argued that human endeavour is meaningless since Allah has predetermined everything. They believed that any action taken by an individual is only a result of Allah's decree. However, majority of scholars believed that Allah's decree and human endeavour are not

mutually exclusive, but rather work in harmony. They argued that while Allah has predetermined events, individuals have the freedom to choose their actions and shape their destiny.

In the context of business success, the concepts of Allah's decree and human endeavour imply that success in business is not solely determined by external factors such as economic conditions or market trends, but rather by the combination of both divine decree and human effort. Quranic verses such as: "And that man shall have nothing but what he strives for" (53:39) emphasize the importance of human endeavour in achieving success.

Islamic teachings emphasize that it is the responsibility of individuals to take practical steps towards achieving their goals. For example, Prophet Muhammad (peace be upon him) said, "Tie your camel and then put your trust in Allah" (Tirmidhi). This implies that while it is important to have faith in Allah's decree, individuals must also take practical steps to achieve their goals.

However, it is important to note that success in business is not solely determined by an individual's effort. Islamic teachings emphasize that the ultimate success is in the hands of Allah and that individuals should remain humble and grateful for any success they achieve. Quranic verses such as: "And say, 'My Lord, increase me in knowledge'"

(20:114) remind individuals to seek knowledge and guidance from Allah to achieve success in all aspects of life.

### **Scholars View on the Relationship Between Allah's Decree and Human Endeavour and Business Success**

In Islamic theology, the concept of Allah's decree (Qadr) and human endeavour (Ijtihad) are intertwined, each playing an important role in achieving success in business or any other aspects of life. According to Islamic scholars, success in business comes from a combination of both Allah's decree and human endeavour.

One of the most famous Islamic scholars, Imam Al-Ghazali, wrote extensively on this topic. He stated that: "success in any endeavour is ultimately dependent on Allah's decree, but human beings are still obligated to exert their best efforts and use their intelligence and resources to achieving success" (Al-Ghazali, 2000).

Similarly, another renowned scholar, Ibn Taymiyyah, believed that "Allah's decree is all-encompassing and all-powerful, but it does not absolve humans from their responsibility to work hard and strive for success" (Ibn Taymiyyah, 2013).

In contemporary times, Sheikh Yusuf Al-Qaradawi, a prominent Islamic scholar, has also discussed this topic extensively. He stated that: "Allah's decree is the ultimate factor in determining success, but human endeavour is necessary to fulfil one's

obligations and responsibilities" (Al-Qaradawi, 2010).

Scholars like Khair (2013), Zakaria (2015), Karem (2020) and Qutb (2004) further emphasized the importance of taking necessary means and making efforts towards one's goals, while also understanding the ultimate role of Allah's decree in determining success. Khair (2013) highlighted the importance of obedience and action, while Zakaria (2015) argued that action is the only space where individuals can actively participate and choose their destiny. Karem (2020) emphasized the importance of supplication, and Qutb (2004) stressed the need for reliance on Allah while confidently working towards one's plans.

In conclusion, Islamic scholars believed that success in business or any other aspect of life is a combination of Allah's decree and human endeavour. While recognizing the ultimate role of Allah's decree in determining success, human beings are still obligated to strive for success through hard work, use of their intelligence and resources, and supplication.

### **Research Methodology**

In this study, a conceptual library research method was employed. The study reviewed relevant literature from the Quran, books of Hadith, and scholarly journals. Islamic scholars' views were obtained and analyzed to justify the relationship between Allah's

decree, human endeavour, and business success.

### **Results and Discussions**

The study conducted an analysis of the relationship between Allah's decree, human endeavour, and individual or business success. Findings revealed that there are factors that individuals and businesses need to identify and utilize in order to succeed. The study also found that success is made possible and simpler for those who are destined to be successful, and that success usually does not come accidentally but the result of an effort and leaving the rest to Allah.

One example of a success factor mentioned in the study is taking necessary means (cause) and making effort while having the belief that the means are not the ultimate, but Allah is. Khair (2013) argued that it is expected of an obedient servant to take necessary means and that believing in destiny does not negate striving and making effort.

Another success factor mentioned in the study is the importance of action in shaping an individual's destiny. Zakaria (2015) argued that action is the only space where an individual can actively participate and operate to choose their destiny, whether on earth as Allah's servant or vicegerent or in the hereafter where they will experience the consequences of their actions.

Furthermore, supplication is also considered as a success factor in the study. Karem (2020) argued that supplication is an act of worship that Allah has commanded and has a great impact on an individual's destiny. Supplication is considered a cause that Allah considers to change the occurrence of something.

In conclusion, the study emphasizes that belief in destiny should not be a reason for laxity in pursuing success. An individual or business should identify and utilize success factors while leaving the rest to Allah's decree.

### **Conclusion and Recommendations**

In conclusion, the study highlighted the relationship between Allah's decree, human endeavor, and individual or business success. It was found that there is a direct relationship between human effort and success, and the level of success depends on the level of effort exerted. Khair (2013) emphasized that taking necessary means and making effort is expected from an obedient servant. Zakaria (2015) stated that an individual can actively participate and operate to choose his destiny by taking action. Karem (2020) explained that supplication is a cause that Allah considers to change the occurrence of something. Qutb (2004) asserted that an individual should rely on Allah and work out plans in confidence.

The study recommends that individuals and businesses should identify and utilize success factors while making effort towards success. They should not become pessimistic about Allah's decree and should work hard towards success as their effort determines their level of success. The study used a conceptual library research method by reviewing documented materials in the Quran, books of Hadith, and scholarly journals to obtain and analyze Islamic scholars' views.

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## Relevance of System Theory to Open and Close Systems in Organisational Management

By

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### Abstract

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*This study explored the system theory and its relevance to open and closed systems in organizational management. The research provided an overview of the system theory, its historical development, and application in modern organizations. The paper analyzed the characteristics of open and closed systems, and discussed the advantages and disadvantages of each system. Additionally, the paper evaluated the effectiveness of open and closed systems in a real-world case study and highlighted the challenges and limitations of their implementation. The study utilized secondary data gathered from existing literature, scholarly articles, case studies, and relevant industry reports, to provide insight in to the relevance of open and close system in organizational management. The implications and significance of the system theory for managing open and closed systems in modern organizations are also discussed. Overall, the paper highlighted the importance of the system theory in organizational management and provided insights for future research and practice. The key findings of the paper revealed that the system theory is essential in understanding the behavior of open and closed systems in organizations. Thus, the study recommends further research and application of the system theory in organizations, particularly in managing open and closed systems effectively.*

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**Keywords:** System Theory, Open and Close System, Organizational Management

### Introduction

Effective management of an organization requires understanding how organizations interact within and outside its environment efficiently to achieve their goals (Grant, Shani & Krishnan, 2014). One area that gained increasing attention in recent years is the study of open and closed systems. In the context of organizational management, an open system is

one that interacts with its environment, while a closed system is one that does not interact with its environment. An open system is dynamic and responsive, while a closed system is static and rigid (Barile & Polese, 2021)

Understanding the difference between open and closed systems is important because it

affects the way an organization operates and how it interacts with its environment. For example, an organization that operates as an open system is more likely to be flexible, adaptable, and responsive to changes in the environment. However, an organization that operates as a closed system is more likely to be resistant to change and less innovative (Barile & Polese, 2021). The system theory is a theoretical framework that views an organization as a complex and interconnected system made up of different parts that work together to achieve common goals (Foerster, 1981).

The system theory explains that an organization is not an isolated entity, but rather is constantly interacting with its environment (Barile & Polese, 2021). This interaction can be either open or closed. An open system is one that is permeable and interacts with its environment, while a closed system is one that is impermeable and does not interact with its environment. The theory is relevant to modern organizations because it provides a framework for understanding how organizations can be managed effectively in the face of complexity and change (Grant, Shani & Krishnan, 2014). The theory highlights the importance of understanding the interactions between an organization and its environment, and how these interactions

affect organizational performance and success.

In conclusion, the study of open and closed systems is an important aspect of management theory and philosophy. Understanding the difference between open and closed systems and how they relate to the system theory is crucial for effective organizational management (Barile & Polese, 2021). By applying system theory to the study of open and closed systems, organizations can improve their performance, adapt to changes in the environment, and achieve their goals (Foerster, 1981).

According to Cameron and Quinn (2011), management of organizations vary in approach, style and content from one organization to another. Each organization decides on a particular line of management to implement what it finds suitable to its objectives. Sometimes, management styles not easily discernable and definable are seen operational in some organizations. This is mostly prevalent in organizations owned by individuals or family members. However, the emphasis of this research is on the management of modern day organizations through the application of the systems theory of management (Von Bertalanffy, 1956). There is a general tendency for concepts and management approaches to change with time.

It is however observed that while some are moving the shore of the business world with growth and success, others are finding survivability, a huge mirage. The reasons for these differences are not farfetched. Wrong business decisions manifesting in the inability to forecast appropriately, adoption of an inappropriate management style, investing wrongly and the application of weak cost and internal control measures are some of the factors responsible for business stagnation and non survivability.

Indigenous organizations are subjects of a variety of management models which sometimes, are not premised on any professional and categorically established study. It is however observed that while some are moving the shore of the business world with growth and success, others are finding survivability, a huge mirage (Golinelli, 2010). The reasons for these differences are not farfetched. Wrong business decisions manifesting in the inability to forecast appropriately, adoption of an inappropriate management style, investing wrongly and the application of weak cost and internal control measures are some of the factors responsible for business stagnation and non survivability (Chesbrough, 2003). This paper is objectively geared to showing an understanding of what the systems theory is all about, its application

in management, especially with modern day organizations. The importance of organizational management with the systems theory and practises are examined. Its relevance in modern day organizations vis-a-vis other contemporary management theories are also discussed.

The work of Ludwing and Von Bertalanffy (1973) recognized the need of any organization to interact with its external environment, unlike what was proposed by classical school theorists like Max Weber, Tailor and Fayol who viewed organization as closed system. To Ludwing and Von Bertalanffy, for an organization to survival the way living organism survives, it should operate in open system and not closed system. This makes the concept become recognized world- wide as approach adapted by organization for their efficiency and effectiveness in the dynamic and changing environments. They were against reductionism, arguing that, real system are open and do interact with external environment, and emphasized on holism while solving organization problems. Therefore, open system changed the way of thinking about organizational management from mechanical view of organization to an open-ended process which emphasized detachment,

objectivity and control. Today organizations are perceived as an open ended process of coordinating purposeful individuals whose actions stem from applying their unique interpretations to the particular situations confronting them. For instance, in current situation, an organization which will not be sensitive to its environment will hardly survive. Things like technology, social and economic phenomena are not static but are always changing, hence organizations need to be dynamic in order to survive. It is also through interaction with its external environment an organization gets its inputs in terms of raw material, labour and process and lastly emits as output to its environment for selling or capital investment. Take example of Aldgate Congress Resort Ltd., that gets its raw materials from environment and also sells its products to the same environment, and through feedback it adjusts itself in order to meet the requirement of its customers, and hence, it survives. In today's rapidly changing and complex business environment, organizations need to adapt and respond quickly to changes in their external environment (Von Foerster, 1981). Understanding the difference between open and closed systems is critical in achieving this level of agility and flexibility.

According to Mele (2003), an open system refers to an organization that is open to its environment and actively engages with it. This includes interacting with customers, suppliers, partners, competitors, and other stakeholders in the external environment. By doing so, the organization is better able to sense changes in the external environment and respond to them in a timely and effective manner. An open system is characterized by flexibility, adaptability, innovation, and continuous learning.

Nevertheless, a closed system is an organization that is closed off from its environment and does not engage with it (Grant, Shani & Krishnan, 2014). This type of organization is often characterized by rigidity, resistance to change, and a lack of innovation. Closed systems are not able to adapt quickly to changes in the external environment, which can lead to missed opportunities, decreased competitiveness, and ultimately, failure (Mele, 2022)

In organizational management, understanding the importance of open and closed systems is critical for a number of reasons. First, it allows managers to understand the impact of the external environment on their organization. By being aware of changes in the environment, managers can develop strategies

to respond to them effectively (Grant, Shani &, Krishnan., 2014).

Second, understanding open and closed systems enables managers to design and implement organizational structures and processes that support the organization's ability to be agile and flexible (Barile & Polese, 2021). This includes developing processes for gathering and analyzing external information, creating teams that are cross-functional and multidisciplinary and establishing a culture of continuous learning and improvement.

Third, understanding open and closed systems is important for developing effective leadership skills. Leaders who understand the importance of open and closed systems are better able to motivate and inspire their teams, foster a culture of innovation and creativity and develop a strategic vision that is aligned with the external environment.

In conclusion, the importance of open and closed systems in organizational management cannot be overstated. By understanding the difference between these two systems types and their impact on organizational performance, managers can develop strategies that enable their organizations to adapt and thrive in today's complex and rapidly changing business environment.

Thus, the purpose of this paper is to provide a comprehensive analysis of the role of open and closed systems in organizational management. The objective is to explore the theoretical foundations of open and closed systems, examine their practical applications in organizational management, and evaluate their impact on organizational performance.

The specific objectives of the term paper include:

- i. to provide an overview of the system theory and its relevance to organizational management,
- ii. to define open and closed systems in the context of organizational management,
- iii. to examine the theoretical foundations of open and closed systems and their relationship to the system theory,
- iv. to explore the practical applications of open and closed systems in organizational management, including their impact on organizational structure, processes, and culture,
- v. to evaluate the impact of open and closed systems on organizational performance, including their role in enhancing or hindering organizational agility, flexibility, and innovation, and
- vi. to identify the best practices for managing open and closed systems in organizational management, including strategies for

fostering a culture of continuous learning and improvement.

By achieving these objectives, the paper aims to contribute to the body of knowledge on open and closed systems in organizational management, provide insights into their practical applications, and identify best practices for managing these systems to enhance organizational performance.

## **Review of Literature**

### **Overview of Open and Close System and their Characteristics**

Von Bertalanffy (1956) defined a system as a complex of interacting elements. Von Bertalanffy fostered systems thinking in all disciplines in order to find general principles valid to all systems. To him, “system” is a new scientific paradigm contrasting the analytical, mechanical paradigm, characterizing classical science (von Bertalanffy, 1950). A fundamental notion of general systems theory is its focus on interactions. The center in relationships leads to **sustain** that the behavior of a single autonomous element is different from its behavior when the element interacts with other elements. Another core tenet is the distinction between open, closed and isolated systems. In open systems, there are exchanges of energy, matter, people, and information with the external environment. In closed systems, there are no exchanges of

information and matter, just exchanges of energy. In isolated system, there is no exchange of elements. Building on general systems theory many approaches were developed which include among others, open system theory, viable system model and viable system approach.

Open system theory (OST) looks at the relationships between the organizations and the environment in which they are involved. This focus reflects on organizations’ ability to adapt to changes in environmental conditions (with or without the need for information processing) (Boulding, 1956; Katz & Kahn, 1978). This theory assumes that entities that are able to process information about own specific environment show more adaptation skills to shifts in contextual conditions. Two orders of adaptive levels are identified, both referring to the informative deviation: i) counteraction—first level (to process information from an organism’s environment), related to the ability of steering through a personal purposive behavior (Ashby, 1958); ii) amplification – second level, related to constructivism theory (as opposed to realism) leading to work on self-organization (von Foerster, 1981).

Katz and Kahn (1978) applied the concept of open system to the organization. The organization was seen as a system built by

energetic input-output where the energy coming from the output reactivates the system. Emery and Trist (1960) addressed organizations as socio-technical systems, underlining the two main components of the firm seen as a system: a social component (people), and a technical component (technology and machines).

Viable System Model (VSM), however, outlines a system as an entity that is adaptable for the purpose of surviving in its changing environment (Beer, 1972). The viable system is an abstracted cybernetic description that is applicable to autonomous organizations. Since cybernetics represents an interdisciplinary study of the structure of regulatory systems, it refers to the study of how actions by a system cause changes in the environment that are understood by the system itself in terms of feedback, allowing the adaptation of the system to new conditions. In other words, the system can change its behavior.

In cybernetics, the system and the environment present different levels of complexity, as the environment has degrees of complexity that are not perceptible to the system (Golinelli et al, 2002; Barile, 2005). When applied to organizations, viable system model focuses on conceptual tools for understanding the organization of systems in

order to redesign them through: i) change management; ii) understanding organization as an integrated whole; iii) evaluating the essential functions of implementation, coordination, control, intelligence and policy (Beer, 1972; Espejo and Harnden, 1989; Espejo, 1999; Christopher, 2007). Finally viable system approach (VSA) suggests a new interpretation of consolidated strategic organizational and managerial models: sub-systems and supra-systems. Sub-systems focuses on the analysis of relationships among enterprises' internal components while supra-systems focus on the connections between enterprises and other influencing systemic entities in their context (Golinelli, 2000; Golinelli, 2005; Barile, 2006; Barile, 2008). Open and closed systems are two types of systems that are commonly used to describe organizations and other complex entities (Von Foerster, 1981). While both systems types have their advantages and disadvantages, understanding their characteristics is critical in developing effective strategies for organizational management (Barile, Polese, 2021)

Open systems are organizations that are open to their external environment and actively engage with it (Grant, Shani & Krishnan, 2014). Open systems are characterized by a continuous flow of information, resources,

and energy between the organization and its external environment. This interaction allows an organization to respond quickly and effectively to changes in the environment, adapt to new opportunities and challenges, and innovate to stay ahead of the competition. Open systems also tend to have a flatter organizational structure, with more decentralized decision-making processes and a focus on collaboration and teamwork (Von Foerster, 1981).

However, closed systems are organizations that are closed off from their external environment and do not engage with it. Closed systems are characterized by a lack of interaction with the external environment, rigid structures, and centralized decision-making processes. This lack of interaction can make it difficult for the organization to respond quickly and effectively to changes in the environment, adapt to new opportunities and challenges, and innovate to stay ahead of the competition (Grant, Shani & Krishnan, 2014). Closed systems also tend to be hierarchical in structure, with a focus on control and compliance rather than collaboration and teamwork (Barile & Polese, 2021)

Research has shown that open systems tend to perform better than closed systems in the long run, particularly in dynamic and complex

environments. For example, a study by Senge (1990) found that organizations that embrace an open systems approach are better able to learn and adapt to changes in their environment, resulting in increased competitiveness and profitability. Similarly, a study by Cameron and Quinn (2011) discovered that organizations which embrace an open systems approach are more likely to be innovative and agile, and are better able to respond to changes in the external environment.

In conclusion, open and closed systems are two systems types commonly used to describe organizations and other complex entities. While both types of systems have their advantages and disadvantages, research has shown that open systems tend to perform better in dynamic and complex environments. Understanding the characteristics of open and closed systems is critical in developing effective strategies for organizational management, and can help organizations to adapt and thrive in today's rapidly changing business environment.

### **Theoretical Foundation of System Theory**

The system theory is a theoretical framework used to describe complex systems and their interactions with their environment (Von Foerster, 1981). It is a useful tool in understanding how different components of a system interact with one another, and how

they are influenced by external factors. System theory has been used to explain a wide range of phenomena in different fields, including biology, engineering, and organizational management (Barile & Polese, 2021)

In the context of organizational management, system theory is relevant to the understanding of open and closed systems. According to Mele (2003), an organization can be seen as a complex system consisting different components such as people, processes, and technology. These components interact with each other to achieve the set organizational goals. Also, the environment in which an organization operates plays a critical role in influencing its performance.

Open systems in organizations refers organizations that are open to their external environment and actively engage with it (Barile & Polese, 2021) They are characterized by a continuous flow of information, resources, and energy between the organization and its external environment. The system theory helps to explain the characteristics of open systems by emphasizing the importance of interactions between the organization and its environment. Open system organizations adapt simply to changes in the environment, learn from their experiences, and continuously improve their performance (Barile & Polese, 2021)

However, Mele (2003) referred closed system organizations as those that are closed off from their external environment and do not engage with it. They are characterized by a lack of interaction with the external environment, rigid structures, and centralized decision-making processes (Barile & Polese, 2021). In this perspective, system theory helps to explain the characteristics of closed systems by emphasizing the importance of internal interactions between the components of such organizations. Closed systems tend to be hierarchical in structure, with a focus on control and compliance rather than collaboration and teamwork.

In fact, system theory also helps to explain how open and closed systems can influence each other. For example, an open system can influence a closed system by introducing new ideas and approaches to the organization (Sterman, 2000) which can lead to increased innovation and agility in the closed system. Conversely, a closed system can influence an open system by imposing rigid structures and centralized decision-making processes which can also lead to decreased agility and responsiveness in the open system.

In conclusion, system theory is a useful framework for understanding the characteristics of open and closed systems in organizational management. It emphasizes the

importance of interactions between the organization and its environment, as well as the internal interactions between the components of the organization. By understanding the system theory, managers can develop strategies that enable their organizations to adapt and thrive in today's rapidly changing business environment (Sterman, 2000).

### **Historical Development of the System Theory**

System theory was developed over several decades, drawing on contributions from various fields of study (Ashby, 1958). The origins of the system theory can be traced back to the early 20th century, with the work of scientists such as Ludwig von Bertalanffy and Norbert Wiener. Ludwig von Bertalanffy, an Austrian biologist, first introduced the concept of general systems theory in the 1920s. He proposed that complex systems could be understood as a series of interrelated components, and that these components could be studied independently of their specific contexts. His ideas were based on the notion that complex systems, such as biological organisms, could not be understood by studying their individual components in isolation.

Norbert Wiener, an American mathematician, introduced the concept of cybernetics in the

1940s. Cybernetics was a discipline that focused on the control and communication processes in both natural and artificial systems. Wiener's work contributed significantly to the development of the system theory by emphasizing the importance of feedback loops in the control and regulation of complex systems (Ashby, 1958).

System theory gained further momentum in the 1950s and 1960s, with the contributions of scholars such as Talcott Parsons and Peter Senge. Talcott Parsons, an American sociologist, developed a comprehensive theory of social systems, which emphasized the importance of understanding the interrelationships between different components of a social system (Vicari, 1992). Peter Senge, an American scientist, developed the concept of the learning organization, which emphasized the importance of continuous learning and adaptation in complex organizations (Barile & Polese, 2021)

In the 1970s and 1980s, system theory became more widely applied in the field of management. Scholars such as James March, Karl Weick and Edgar Schein contributed significantly to the development of system theory in organizational management (Ashby, 1958). They emphasized the importance of understanding organizations as complex systems, and the need to develop new

management practices that could better account for the complexity and interdependence of organizational components.

Today, system theory remains a fundamental framework for understanding complex systems in a wide range of fields, including biology, engineering, and management (Barile & Polese, 2021). Its historical development reflects the contributions of many scholars and practitioners from different disciplines, who have worked to refine and apply the theory to a range of real-world problems (Vicari, 1992).

### **Application of the System Theory in Modern Organizations**

System theory has found widespread application in modern organizations because it provides a comprehensive framework for understanding the complex interrelationships between various components of an organization, and for identifying ways to optimize organizational performance (Stermann, 2000). One of the key applications of system theory in modern organizations is in the design and management of complex systems. The theory provides a structured approach for identifying the key components of a system, and for understanding how these components interact with each other (Aldrich, 1979). By applying this theory, organizations can design systems that are more efficient, more reliable, and more resilient.

Another important application of system theory in modern organizations is in the area of strategic management (Barile & Polese, 2021) as it provides a way of understanding how an organization's internal components interact with the external environment, and how changes in the external environment can impact the organization's performance. By applying system theory, organizations can develop strategies that are more adaptive and responsive to changes in the external environment (Vicari, 1992). Mele (2003) posited that system theory is also widely applied in the area of organizational learning and innovation and there, it emphasizes the importance of continuous learning and adaptation in complex systems, and provides a framework for identifying opportunities for innovation and improvement (Aldrich, 1979). By applying this theory, organizations can develop new products and services, and can identify ways to improve their operational efficiency and effectiveness.

Finally, system theory is widely used in the area of organizational development and change management. There, it provides a way of understanding how changes in one component of an organization can impact the performance of other components, and how these changes can be managed to achieve desired outcomes (Ashby, 1958). With the

system theory, organizations can manage change more effectively, and can achieve better outcomes in terms of employee engagement, productivity and performance. Therefore, system theory is a powerful framework for understanding and optimizing the performance of modern organizations because its wide range of applications reflects its versatility and adaptability to a wide range of organizational contexts, and its continued relevance in the face of ongoing changes in the business environment.

#### **Analysis of Open and Closed Systems**

System theory underpins both open and closed systems in organizational management because it emphasizes that any system is a set of interconnected and interdependent components that interact with one another to achieve common goals. These components are inputs, processes, and outputs (Aldrich, 1979). Inputs refer to the resources needed for the system to function, the processes are the activities that transform the inputs into outputs, and the outputs are the results or outcomes of the system (Sterman, 2000).

In open systems, system theory emphasizes that an organization is influenced by the external environment, and it interacts with it in a continuous and dynamic way (Ashby, 1958). Therefore, open systems are more flexible and adaptive to changes, and can take

advantage of new opportunities in the environment. System theory emphasizes that open systems need to be able to sense and respond to changes in the environment, and to adapt their inputs, processes, and outputs accordingly (Sterman, 2000).

In contrast, closed systems are more rigid and less adaptable. In this perspective, system theory emphasizes that closed systems are self-contained and do not interact with the external environment. Closed systems rely on internal feedback mechanisms to maintain stability and predictability. The theory further emphasizes that closed systems need to be able to regulate their internal processes to maintain stability and predictability (Vicari, 1992).

#### **Comparison and Contrast of Open and Closed Systems**

Mele (2003) asserted that open systems and closed systems have some similarities and differences. One of the similarities is that both systems are made up of interdependent components that interact with one another to achieve common goals (Ashby, 1958). In addition, both systems can use feedback mechanisms to maintain stability and predictability.

However, there are also some significant differences between the two systems as open systems are more flexible and adaptable to

changes in the external environment, while closed systems are more rigid and less adaptable (Aldrich, 1979). Also, open systems are influenced by external environment and interact with it in a dynamic way, while closed systems are self-contained and do not interact with the external environment (Ashby, 1958). Regarding their advantages and disadvantages, it is observed that open systems have some advantages over closed systems. One of the advantages of open systems is that they are more flexible and adaptable to changes in the external environment. This means that open systems are better equipped to take advantage of new opportunities and to respond to threats in the environment. In addition, open systems are better at learning from experience and can continuously improve their performance (Stermann, 2000). However, open systems can be more complex and difficult to manage (Von Foerster, 1981) because they often require a greater level of coordination and communication between different parts of the organization, and this can sometimes lead to conflicts and inefficiencies. In addition, open systems are more susceptible to external disruptions, which can sometimes be difficult to predict and manage (Vicari, 1992).

Closed systems also have some advantages and disadvantages. One of the advantages of

closed systems is that they are more stable and predictable (Aldrich, 1979). Closed systems rely on internal feedback mechanisms to maintain stability, and this can make them more resistant to external disruptions. In addition, closed systems can sometimes be easier to manage, since there is less need for coordination and communication between different parts of the organization (Stermann, 2000). However, closed systems are less flexible and less adaptable to changes in the external environment. This means that closed systems can sometimes miss out on new opportunities and can be slow to respond to threats in the environment (Vicari, 1992). In addition, closed systems can sometimes become stagnant and resistant to change, which can lead to a decline in performance over time (Ashby, 1958).

In conclusion, system theory provides a framework for understanding and optimizing the performance of both open and closed systems in organizational management. While open systems are more flexible and adaptable, they can also be more complex and difficult to manage. Conversely, while closed systems are more stable and predictable, they can also be less adaptable (Stermann, 2000).

### **Methodology**

The study utilized secondary data gathered from existing literature, scholarly articles,

case studies, and relevant industry reports, to provide insight in to the relevance of open and close system in organizational management.

### **Case Study Analysis**

One real-world case study where open and closed systems have been applied is the famous McDonald's Corporation. McDonald's is known for its efficient and standardized operations, which contributed to its success as a fast-food chain. McDonald's operates with a closed system approach, where the focus is on maintaining tight control over its operations, supply chain, and franchisees. McDonald's has a set of standard operating procedures that are followed strictly by its employees and franchisees. These procedures ensure consistency in food quality, service, and customer experience across all outlets. The company's closed system approach has helped it to control costs, minimize errors, and increase efficiency.

### **Evaluation of the Effectiveness of Open and Closed Systems in the Case Study**

The effectiveness of the closed system approach in McDonald's can be seen in its success as a global fast-food chain. The company's standardization of operations, supply chain, and franchisees has ensured that customers get the same quality of food and service regardless of the location. This has

helped to build a strong brand image and customer loyalty. However, the closed system approach also has some limitations. For example, it can stifle creativity and innovation among employees and franchisees who may feel constrained by the rigid standard operating procedures. This can lead to a lack of motivation and employee burnout. Moreover, closed system approach may not be suitable for all types of businesses, especially those that operate in dynamic and uncertain environments (Von Foerster, 1981).

### **Challenges Encountered in the Implementation of Open and Closed Systems**

One of the challenges encountered in the implementation of closed systems is the need for constant monitoring and control. This can be time-consuming and requires significant resources to maintain (Aldrich, 1979). Additionally, the rigidity of the closed system approach may not be suitable for all businesses, especially those that require innovation and adaptability (Von Foerster, 1981).

Open systems, however, require a different set of skills and resources to implement effectively. For example, open systems require a higher level of communication, collaboration, and trust among employees and stakeholders (Sterman, 2000). This can be challenging to achieve in some organizational

cultures where there is a lack of transparency and accountability. Moreover, open systems may also face the challenge of balancing autonomy and control. While open systems allow for more flexibility and creativity, this can also lead to inconsistencies in operations and quality (Sterman, 2000). Therefore, it is essential to strike a balance between autonomy and control to ensure that the organization's goals are met.

In conclusion, open and closed systems are two distinct approaches to organizational management that have their advantages and limitations. Thus, system theory underpins both open and closed systems, highlighting the importance of understanding how organizations operate as a whole. The effectiveness of open and closed systems depends on the organizational context, goals, and environment. In practice, organizations may need to adopt a combination of open and closed systems to achieve the desired outcomes. The McDonald's case study is an example of the effectiveness of the closed system approach in ensuring consistency and efficiency in operations. However, the closed system approach may not be suitable for all organizations, and a balance between autonomy and control is essential for open systems.

## **Conclusion and Recommendations**

### ***Summary of Key Points and Findings from the Term Paper***

In this paper, we explored the concept of open and closed systems in organizational management, the system theory, and how it underpins open and closed systems. We also compared and contrasted the two systems, analyzed their advantages and disadvantages, and evaluated their effectiveness through real-world case studies.

Based on the analysis, we found that open and closed systems differ in their approach to interactions and relationships with their environment. Open systems actively seek to interact with their environment to receive feedback and adjust their strategies accordingly, while closed systems tend to operate in isolation and resist changes from the environment. However, there are advantages and disadvantages to both systems, and their effectiveness depends on the context in which they are implemented.

It was also discovered that system theory provides a framework for understanding how organizations interact with their environment, emphasizing the interdependence of different parts of the organization and the importance of feedback loops. The theory underpins both open and closed systems by highlighting the need for organizations to adapt to changes in

the environment while maintaining a degree of stability and coherence.

### **Implications and Significance of the System Theory in Modern Organizations**

System theory has significant implications for managing open and closed systems in modern organizations. By providing a holistic perspective on organizational functioning, it highlights the importance of considering the impact of external factors on the organization's performance. It also emphasizes the importance of flexibility and adaptation to changes in the environment while maintaining coherence within the organization. In today's complex and rapidly changing business environment, organizations must continuously adapt to stay competitive. The system theory provides a useful framework for managing this complexity, by enabling organizations to better understand their interactions with the environment and adapt their strategies accordingly.

### **Recommendations for Future Research**

Future research can explore the application of system theory in specific organizational contexts, such as healthcare or education, to determine its effectiveness in different domains. Research can also focus on developing more precise measures of system effectiveness and identifying the factors that contribute to successful implementation. In

terms of application, organizations can use system theory to guide their strategic planning and decision-making processes. They can also use it to develop more effective feedback systems and enhance communication and collaboration within the organization.

### **Reflections and Personal Insights on the Topic**

Overall, this paper reflects a valuable learning experience, providing insight into the complex and dynamic nature of organizational functioning. Also, it is discovered that system theory offers a useful lens for understanding these complexities and provides a framework for managing them.

One personal insight from this research is the importance of organizational learning and adaptation. Organizations must continually adapt to changes in the environment to remain competitive and achieve their goals. Another insight is need for effective communication and collaboration within organizations to ensure coherence and alignment in the face of environmental changes. In conclusion, system theory offers valuable insights into managing open and closed systems in modern organizations. By emphasizing the importance of adaptability and coherence, it provides a framework for understanding and managing the complexities of organizational functioning in a rapidly changing environment.

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## Effect of E-commerce on Organizational Performance: A Review

By

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### Abstract

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*E-commerce is an important factor that can contribute to strengthening organizational performance. This study examined the effect of e-commerce on organizational performance. As a conceptual paper, this research utilized a structured literature review to analyze the extant literature, empirical studies, and explore the theory underpinning e-commerce and organizational performance. The formulation of the framework is based on a review of the e-commerce and organizational performance literature. If this research framework is validated, it provides an avenue for organizations to develop new strategies for enhancing organizational performance. The findings also revealed that e-commerce tools in organizations are necessary for enhancing performance.*

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**Keywords:** E-commerce, social media, mobile commerce, organizational performance, Technology

### 1.0 Introduction

Organizational performance has gained considerable traction in recent years (Akbar et al., 2021; Qureshi et al., 2021). Organizational performance is a fundamental outcome variable in business and management research, with applications in various areas ranging from human resources and marketing to operations management, international business, strategy, and information systems (Gandolph, 2022). Corporate performance is equally important to practitioners and academics in the modern business era, and some researchers have broadly analyzed firm performance in terms of financial and non-

financial indicators (Han & Hong, 2019; Qureshi et al., 2021). However, corporate managers usually employ specific performance indicators, such as sales increment, increased market return, investment growth, and return on investment, on a year-to-year basis to measure financial performance (Combs et al., 2006; Rajan et al., 2007). Likewise, a firm's non-financial performance can be measured by customer satisfaction, advanced technological innovation, perceived value of the product, employee satisfaction, and reduction in production time (Hussain et al., 2022).

Today, we live in an era of technological revolution or digital transformation (Attia, 2022; Gregory et al., 2017; Kim et al., 2022; Lestari et al., 2020; Mou et al., 2019; Obi et al., 2022; Octavia et al., 2020). This technology and digital era cannot be separated from e-commerce, where e-commerce is a medium that connects companies, individuals, and consumers to conduct electronic transaction exchanges of goods and exchange of information through the Internet or another computer network (Lestari et al., 2020). Therefore, organizations concede the use of digital technology to help become successful and transform suppliers and customers into an integrated network capable of enhancing value-adding processes (Attia, 2022). To enhance organizational performance, many businesses, especially the new generation, adopted e-commerce to enhance customer service delivery through the advancement of information technology (Gregory et al., 2017; Gupta et al., 2020; Lestari et al., 2020; Olanrewaju, 2016; Terzi, 2011; Wu et al., 2020). There is no need for physical contact (Terzi, 2011), empowering employees, offering consumer-optimized production, serving consumer-added product benefits, or facilitating the growth of digital businesses (Ikumoro & Jawad, 2019). According to the World Trade Organization (WTO), an

increase in information contributed to the rapid development of e-commerce (WTO, 2013). E-commerce presented a new method of doing business, and firms are putting more effort into developing innovation (Chandran et al., 2001). Customers are increasingly becoming digital (Hua et al., 2018), and firms subsequently transform and expand their technological capabilities to be innovative and prepare their business for the digital age (Hua et al., 2018), all to win over as many customers as possible (Vujadinovic et al., 2020).

In addition, e-commerce has significantly changed the relationship between customers and businesses by creating and allowing two-way communication, and social media tools assist companies in communicating with individual consumers (Amir & Sirang, 2018; Gupta et al., 2020; Olusegun et al., 2020). This, in turn, helps establish long-term relationships (Gupta et al. 2020). However, consumers can produce information about an organization and educate other consumers about products, brands, and services (Olusegun et al., 2020). Online business abilities show businesses vital activities in utilizing e-commerce to exchange data and information, enhance client benefits, and reinforce provider combinations (Mutuku et al., 2019). Therefore, e-commerce is a

business transaction on the Internet (Li & Lin, 2020). E-commerce can also be defined as the application of e-business related to commercial transactions, such as electronic funds transfer, SCM (supply chain management), e-marketing (e-marketing), online marketing, online transaction processing, electronic data interchange (EDI), product promotion and others (Hendrawan et al., 2018)

Furthermore, E-commerce is increasing daily, which encourages researchers to research how e-commerce influences organizational performance (Bhatti & Rehman, 2019). Nduji and Chris (2020) suggested that more insight on organizational performance should be conducted on e-commerce in Nigeria. Li and Lin, (2020) also called for more research into when and how e-commerce can help agricultural firms and the mechanisms that translate technology-related capabilities into performance gains.

Similarly, Wasiu (2022) suggested that further study should be conducted on the impact of strategic management practices on the organizational performance of real estate businesses in Nigeria, with a different case study or geographical location outside the realm of his study and with different variables or same variables to validate the findings. Kilay et al., (2022) recommended the

necessity to investigate the use of e-payment and e-commerce services specifically based on the types of facilities used in each service to determine which facilities contribute more to organizations and which increase customer interest. However, this study focuses on the gap mentioned in Kilay et al. (2022) to examine the effect of e-payment and e-commerce on organizational performance. This study aims to determine the effect of e-commerce on organizational performance.

## **2.0 Related Literature Review**

### **2.1 Organizational performance**

Organizational performance has been defined in various ways by researchers (Sunayana & Parveen, 2019). It is said to be defined as the voluntary association of productive assets such as human, physical, and financial resources to achieve a common goal (Gandolph, 2022). Moreover, organizational performance refers to an enterprise's ability to achieve objectives such as high profit, quality products, large market share, good financial results, and survival at a predetermined time using the relevant strategy for action (Abomeh, 2022). A company's performance is the standard or required indication of its effectiveness, efficiency, and environmental responsibility (Ojo et al., 2022). Organizational performance is a multi-dimensional

construct that covers financial performance indicators, customer-related outcomes, innovation, and internal organizational processes (Singh et al. 2016). Organizational performance encompasses three specific areas of firm outcomes: financial performance, such as profits, return on assets, and return on investment; product market performance, such as sales and market share; and shareholder return, such as total shareholder return and economic value added (Richard et al., 2016; Sunayana & Parveen, 2019). The organization is only able to improve performance when performance is measurable (Richard et al., 2009; Loon et al., 2022). Organizational performance is generally measured by its effectiveness, efficiency, employee and customer satisfaction, innovation, product or service quality, and ability to retain a distinctive human pool (Ojo et al. 2022). A company's potential success is determined by its organizational performance or ability to effectively implement strategies to achieve institutional goals (Ojo et al., 2022). Similarly, organizational performance can also be used to view how an enterprise is doing in terms of the level of profit, market share, and product quality concerning other enterprises in the same industry (Abomeh, 2022).

Different researchers used different methods for measuring performance. This type of measurement has been classed as objective or subjective. An objective measure deals with financial records, while subjective measures concentrate on managers' perceptions regarding the organization's performance (Tang & Zhang 2005). Nevertheless, many studies suggested using subjective measures because the data for objective criteria could be inappropriate, misleading, and difficult to obtain. If the data are available, they may not genuinely represent the actual organization's performance as the information may be manipulated (Abomeh, 2022).

Furthermore, Wade and Hulland (2004) stated that organizational capabilities can be examined from different perspectives. A comprehensive review of the literature suggests three distinct categories of capabilities: outside-in, inside-out, and spanning. Outside-in capabilities are externally oriented, focusing on a firm's ability to anticipate market requirements and understand competitors (e.g., responsiveness to competitive and external market dynamics). Inside-out capabilities are internally focused and involve deployment from inside the firm in response to market opportunities (e.g., technology development and cost reductions). Spanning capabilities involve the integration

of both outside-in and inside-out capabilities, allowing firms a more holistic view of business relationships and planning and management of operations (Gregory et al., 2017).

According to Odia (2022), three approaches were identified to achieve an organizational goal. The first approach states that an organization pursues identifiable goals. This approach describes performance in terms of the attainment of these goals. The second approach is the systems resource approach which defines performance as the relationship between an organization and its environment. This concept defines performance according to an organization's ability to secure limited and valued resources in the environment. The third approach is the process perspective, which defines performance in terms of the behavior of an organization's human resources. Abomeh (2022) described organizational performance as evidence of the output of members of an organization measured in terms of revenue, profit, growth, development, and expansion of the organization. In a highly volatile environment, organizations strive to achieve competitive advantage and superior organizational performance (Rajaguru & Matanda, 2018). Therefore, the most well-known notion for

evaluating organizations is organizational performance (Alghamdi, 2019).

## **2.2 E-commerce**

There is no consensus on the exact definition of e-commerce as several definitions were used in different contexts. E-commerce has been described as conducting commercial activities via electronic media, most commonly the Internet (Kabuba Purity, 2014; Kinuthia & Akinnusi, 2016). Zwass (1996) defined e-commerce as sharing business information, maintaining business relationships, and conducting business transactions through telecommunications networks. Microsoft Corporation defined e-commerce as an exchange of goods or services that have value using Internet technology (Hendrawan et al., 2018). Indeed, much of the uncertainty around e-commerce can be attributed to the Internet's rapid evolution and increasing importance. Regarding the use of technology, e-commerce involves the communication, delivery, and buy selling of products, services, and information over a computer network (Sergi et al., 2019). For companies, e-commerce has many advantages over purchases from physical stores. Corporate benefits can be captured by effective e-commerce adoption through substantial cost-

savings, revenue maximization, and improvements in product delivery and customer service (Mou et al., 2019).

In recent years, e-commerce has evolved into more advanced forms, such as mobile commerce (Khansa et al., 2012; Sun & Chi, 2018; Shiau et al., 2019), social commerce (Cheng et al. 2019; Schaupp & Bélanger, 2016) and cross-border e-commerce (Cui et al. 2019; Mou et al. 2019; Zhu et al. 2019), and B2B e-commerce (Ghobakhloo et al. 2015). As an extension of e-commerce, m-commerce refers to transactions with monetary value through a telecommunications network. This includes not only shopping online, but also banking, investing, and other mobile phone services (Kleijnen et al. 2007). Generally, m-commerce is considered a separate channel with unique advantages over e-commerce by offering convenience, such as instantaneity, ubiquity, localization, personalization, and identification (Zhang et al. 2012). However, social commerce is defined as a form of commerce mediated by social media that engages in online and offline transactional activities (Zhou et al. 2013). Social commerce can provide e-commerce companies with more opportunities to improve customer communication, form customer relationships, and build trust (Curty & Zhang, 2011). Given the potential advantages, firms such as

Facebook, LinkedIn, Twitter, and numerous other start-ups are trying to promote the adoption of social commerce business models to improve their financial growth (Liang & Turban, 2011). E-commerce involves the ethical mode of online commerce and the deployment of resources to achieve and maintain a competitive advantage in virtual markets (Sharma & Lijuan, 2014).

### **2.3 The Relationship between E-commerce and Organizational Performance**

Numerous studies justified the positive relationship between e-commerce and organizational performance. According to Rosenbaum and Wong (2015), e-commerce increases a firm's output by streamlining processes and developing discounts, resulting in increased operational efficiency. For example, by decreasing response times to consumer requests and maintaining a database of consumer preferences, e-commerce capabilities can enhance customer loyalty and drive repeat visits (Hua et al. 2018). Similarly, commercial banks that leverage information, transactions, customization, and back-end integration capabilities achieve flexibility, customer satisfaction, and improved performance (Mutuku et al., 2019). Hendrawan et al. (2018) and Vujadinovic et al. (2020) elucidated that e-commerce can

improve selling performance. In addition, e-commerce helps improve marketing processes, assists in improving a firm's payment system, and helps increase workers' efficiency and firm profit (Vujadinovic et al., 2020).

High levels of e-commerce technical capability in agricultural firms mean that the IT function in firms can quickly develop, deploy, and support the system components needed by firms to face customers, improve operations, and better integrate internal operations with external stakeholders (Li & Lin, 2020). Moreover, the decision-making performance of any firm depends on three major dimensions: application design, reasonable product prices and availability of user-generated content (UGC) (Gupta et al., 2020). A study by Nwankwo (2022) revealed how e-mail, the Internet, and e-commerce can be significant factors in banks' organizational performance. Many authors stated that e-commerce is still at the embryonic stage in the business domain, although many developments have occurred in this area (Neeraj & Pandey, 2020).

Many authors reported negative findings regarding the relationship between e-commerce and business performance. Lee et al. (2019) examined the relationship between e-commerce adoption and firm performance in

the context of the Korean retail industry. The authors found that e-commerce adoption has a negative impact on firm profitability, sales growth, and market share. Similarly, Choudhury et al. (2017) reported that e-commerce adoption negatively affects firm performance. The study examined the impact of e-commerce on Indian firms' financial performance and found that e-commerce adoption was negatively associated with profitability. The authors suggested that this negative effect may be due to the high initial costs of e-commerce adoption, which may not be offset by benefits in the short run. Furthermore, Nguyen and Nguyen (2020) examined the relationship between e-commerce adoption and firm performance in the Australian retail industry. The authors found that e-commerce adoption has a negative impact on firm performance as it leads to increased competition and price pressure. Moreover, e-commerce adoption has a negative effect on firm performance, as it leads to price competition and a decrease in profit margins (Jiang et al., 2020).

In contrast, several studies found both negative and positive relationships between e-commerce and business performance. According to Turel and Serenko (2019), digital commerce adoption is positively associated with revenue growth and

negatively associated with profitability. The authors suggested that the negative effect on profitability may be due to increased competition and price transparency in the digital environment. Moreover, Chen et al. (2020) investigated the relationship between e-commerce adoption and firm performance in Chinese manufacturing firms. This study found both negative and positive results as the authors found a positive relationship between e-commerce adoption and firm profitability but no significant relationship between e-commerce adoption and sales growth or market share. This study suggested that e-commerce adoption does not significantly impact all aspects of firm performance. Furthermore, Kotb and Beltagy (2021) found that although e-commerce had some benefits, such as increased customer reach and improved efficiency, it also had negative impacts such as increased competition, reduced customer loyalty, and increased costs associated with technology adoption, maintenance, and cyber security. Finally, Prasad (2020) investigated the impact of e-commerce on small and medium enterprises (SMEs) in India. The author surveyed 100 SMEs and found that although e-commerce had some benefits, such as increased sales and customer reach, it also had negative impacts, such as increased competition, reduced profit

margins, and a lack of full control over the e-commerce platform. E-commerce initiatives can drive increases in room revenue through ease of bookings and decrease expenses through operational efficiencies and economies of scale (Hua et al., 2018).

Based on previous related studies, we have explored both the negative and positive impact of e-commerce on organizational performance, proposing that e-commerce has a positive outcome on the growth of the organization in the long run, while the negative aspects, such as the cost of implementation, also affect the profitability of the organization due to increased competition.

## **2.4 Theoretical Framework**

### **The Technology–Organization–Environment Framework**

The TOE framework developed by Tornatzky et al. (1990) is a classic framework that proposes a generic set of factors to explain and predict the likelihood of innovation/technology adoption (Bryan & Zuva, 2021). The framework proposes three bits of enterprise context that influence the adoption decisions and implementation of innovations (Awa et al., 2016). Furthermore, the three elements are technological, organizational, and environmental contexts. All three are posited to influence technological innovation

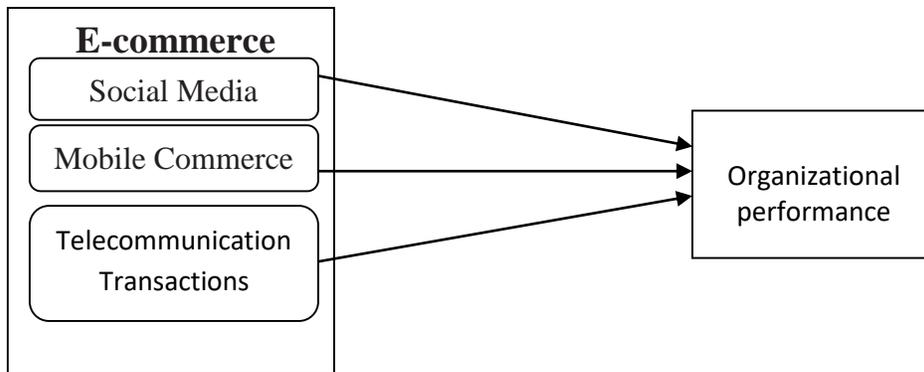
(Baker, 2012; Eze et al., 2022; Tripopsakul, 2018).

The three dimensions are described as follows: First, the technology context outlines the features of technologies that are within and external to the organization, which are suitable for improving efficiency and productivity; it includes those the organization is currently using (Tripopsakul, 2018), available in the market but yet to be tested, improved, or tried by the organization (Gupta et al., 2013, Eze et al., 2014; Eze et al., 2018). Second, the organizational context relates to firm resources and firm characteristics, such as firm size, scope of operations, employee capability, management support, and intra-firm communication (Baker 2002). Third, the environmental context deals with factors that

influence e-commerce adoption (Andries & Debackere, 2006). This extends to the firm’s location, structure, regulatory structures, customer and competitive dynamics, trading partners’ readiness, economic trends, availability of IT vendors/consultants, and globalization (Tornatzky & Fleischer, 1990; Mehrtens et al., 2001).

In summary, T-O-E has materialized as a widespread framework for the theoretical perspective on IT adoption (Bryan & Zuva, 2021). The three elements (technological, organizational, and environmental contexts) present “both constraints and opportunities for technological innovation” (Tornatzky & Fleischer, 1990), that is, e-commerce. These elements influence a firm’s level of technological innovation (Baker, 2012).

**2.5 Conceptual framework**



**Figure 1:** A research framework

**3.0 Methodology**

This study followed a structured literature review (SLR) as the research methodology.

SLR is a three-step approach as suggested by Tranfield et al. (2003); namely, the review protocol was planned according to the

requirements of the research review by identifying, selecting, and analyzing the relevant papers and disseminating the results in the form of descriptive results and thematic reporting (Neeraj Pandey, 2020). In the initial stage, the review was planned to keep in mind the void in organizational performance concerning e-commerce usage. First, the number of research papers published by each author on e-commerce and organizational performance was analyzed, and authors with more published papers on the selected themes were considered accordingly. Second, journals with the most publications were considered during the review procedure. Third, we examined the institutional affiliations of scholars who published these research articles. Finally, the topology of previous studies was considered to understand the effectiveness of the study.

#### **4.0 Conclusion and Recommendation**

The establishment of a relationship between e-commerce and organizational performance is a requirement for the effective and efficient achievement of organizational goals in today's world. This study elucidated the relevance of electronics and the Internet to organizational performance. Concepts,

theories, and empirical studies were reviewed during the research work.

In this study, a structured literature review was conducted, where the conceptual result of this study showed that e-commerce has a positive direct significance of growth on organizational performance and negative aspects, such as cost of implementation and profitability. Moreover, TOE theory was used as the theoretical framework to support our variables. This study provided insights into the definition, background, and ways that organizations can improve their performance. Several researchers have suggested future research on e-commerce and other variables. This study examined the effect of e-commerce on organizational performance, and if organizations can dwell on these factors, they enhance their performance. Future research should examine other variables, including e-payment, strategic management practice, and technology-related organizational performance. Furthermore, this study considered only conceptual studies on the effect of e-commerce on organizational performance. Hence, future research should explore the empirical findings of this study.

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## Impact of Motivation on Employees Performance in Kwara State Internal Revenue Service

By

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### Abstract

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*This paper attempted to look into the effect of motivation on employee performance in the workplace of Kwara State Internal Revenue Service. A survey research design was adopted while primary data were obtained using a structured questionnaire. Descriptive statistics were presented using frequency table and simple percentages while inferential statistics were analysed using regression and correlation coefficient to test the formulated hypotheses. A sample of 75 staff was drawn from a population of 80 staff (administrative directorate). The findings of the study showed that motivation has impact on employee performance in Kwara State Internal Revenue Service. The research concluded that motivation have significant impact on employee performance. This can be seen with the high t-test figure of 50.77. The respondents, however, had differing opinions about whether their incomes being increased on a regular basis. Employee motivational factors shift over time, so what motivates one person today may not motivate another tomorrow. Managers should keep these in mind when they come up with new strategies to incentivize their employees to provide outstanding service, according to the report. Managers should consider developing their organizations' human capital by providing possibilities for promotion. Managers should also consider a robust training and development policy to assist employees perform better in the workplace.*

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**Keywords:** Kwara State Internal Revenue Service (KWIRS), Motivation, Performance

### 1.1 Introduction

Motivation is one of the most important elements for an organisation's ability to maintain work continuity and assist the organisation thrive. Finding a need among employees while making an attempt to establish a seamless working process is motivation. Motivating employees leads to them broadening/widening their talents in order to meet the expectations of an organization. Each branch manager should be

in charge of collaborating with employees to establish their individual demands and comparing them to the organization's needs (Omollo, 2015). Motivating employees is the only and most effective technique to get them to work hard. People today must comprehend why they are working so hard. Every cell in an organ is unique. Persons have desires, requirements, and wants. As a result, employee motivation refers to the process by

which an organization employs incentives such as prizes, bonuses, and other incentives to inspire its employees to fulfill organizational goals. Businesses can now easily transfer supplies, requirements, commodities, and services to other companies or nations. Human resources, however, are the one resource that cannot be traded. As a result, human resources are the most valuable and competitive assets that cannot be traded in any business.

Any organisation's workers or employees are referred to as human resources or human assets. As a result, motivation is the most important factor influencing human resource development. These days, a lot of individuals are talking about motivation and the relationship between employee and organizational efficiency. Motivation causes an organization's workers or employees to take their tasks and obligations seriously (Azar & Shafiqhi, 2013). Attractive salaries or wages are also a valuable strategy for improving employee performance as well as increasing an organisation's productivity (Muogbo, 2013). Motivation refers to the processes that define an individual's amount of effort, direction, and tenacity in reaching a goal, according to Robbins and Judge (2007). To motivate someone, you must first develop a desire and a willingness to perform.

As a result, according to Saeed and Asghar (2012), motivation is critical from an organisational standpoint since it translates people resources into action. They go on to claim that this increases staff efficiency and leads to the achievement of organisational goals. In this sense, motivation is an internal sensation that arises from within, i.e., when employees are motivated by their occupations, they are motivated to do more work. As a result, it is vital to establish such a workplace for employees in order for them to feel motivated and perform at a higher level.

As a result, motivation can be defined as the psychological processes that create arousal, direction, and desire and the persistence of goal-directed voluntary acts (Kreitner & Kinicki, 2006). Employees in any industry, according to Asim (2013), are the true assets of the business, and if they are motivated, they fulfill their responsibilities with complete honor and dedication, they become entirely loyal to the organisation, and they are thus, termed human capital.

In Nigerian society, the issue of apparent lack of motivation is a vexing one. When this occurs in a company, it results in inefficiency and low productivity. As a result, job performance is the sum of an employee's efforts, as adjusted by abilities, skills, role perceptions, and the outcomes produced. This

means that in a given scenario, performance can be understood as the result of interrelationships between effort, talents, role perceptions, and outcomes.

Employee performance is how a member of staff fulfils the duties of their role, completes required tasks and behaves in the workplace. Measurements of performance include the quality, quantity and efficiency of work. Motivation aids the performances of employees, regardless of if there is a direct supervisor or not, when employees are well motivated it helps in the organisational development.

Furthermore, in order to achieve an acceptable degree of proficiency, each of the performance components, namely talents, skills, and the environment, must be present. According to Rue et al., the level of performance can be enhanced if management allows employees to be more involved in setting their own performance evaluation (2003). As a result, management must provide an enabling environment for employees to execute well. An organisation's aim can only be developed and achieved via the efforts of its employees.

Individuals have their own personal goals, which are most likely not the same as the organization's. Managers must therefore, create a situation [i.e. an environment] that encourages employees to perform better, such

as when they are involved in decision-making, when they are rewarded with promotions and pay raise, when they are rewarded with adequate workplace security, and when exceptional performance is rewarded.

Some of the things that drive people to perform effectively, according to Atogiyire (2001), include a good reward system, training and development, leadership style, promotion, work atmosphere, and so on. It's crucial to remember that employees are organisation's indispensable assets who play a key role in achieving company goals and overcoming obstacles. As a result, to work effectively, a person must be motivated.

The study's main goal is to see how motivation affected staff performance in the Kwara State Internal Revenue Service (G.R.A branch). The secondary objective is to look at how incentive has an impact on employee performance in the Kwara State Internal Revenue Service.

## **2.1 Literature Review**

### **Conceptual Review: Definition of Motivation**

A thinking process, according to Carter (2000), is an interior expression that arises, initiates or moves, and coordinates or channels conduct toward goals. Nonetheless, Sarry (2001) indicated that motivation is a recurring contact and that persuading subordinates is one of the more distressing aspects of a chief's

job. "The cycle may be said to be independent of a logic desire or the individual's urge to hold back to accomplish something," Sarry(2001) continued (thought process). This could be a positive desire for something or a need caused by a lack of something. If the person's actions get them closer to their ideal goal, they will be satisfied. There will be no relief if the techniques are ineffective, and there may be an increase in the want or need.

Furthermore, according to Albers (2008), "A representative's exhibition at work is dependent on the worker's capacity and motivation to carry out the activity." Along similar lines, the level of motivation of workers determines how well they perform on a task. The more well-known a representative becomes, the more capable and useful he becomes. According to Richard (2002), a thinking process is "intermittent worry for an objective state, or condition appearing in dreams that motivates, coordinates, and choices people's behaviour."David (2001) believed that motivation drives behavior, stating that "motivation is the upgrading that produces activity, coordinated action, which is the essential competence of the board." "Motivation can be considered as a mark of the determinants of the decision to begin exertion on a specific errand like, Albers, Walker is also of the opinion that the

level of a singular's motivation determines the amount of exertion it he will put to some random assignment," according to Walker (2001). As a result, the greater an individual's motivation, the more effort he puts into his work. The analyst agrees with the creator since, if the director can rouse his subordinate and make the best use of the propelling assets, the organization has a better chance of enduring. Wehrich (2008) defined motivation as a broad phrase that encompasses the entire range of desires, needs, desires, and comparative capacities. He claimed that administrators "spur" their subordinates, implying that they do things that they believe would satisfy their subordinates' desires and motivate them to act in the best possible way. According to Cole (2002), Motivation is a cycle in which people pick from a variety of activities in order to attain their objectives. Motivation was also described as a behavior triggered by a change but directed toward a desired outcome.

Behavior Goals/Desired Outcomes Stimulate  
Appropriate Behavior

Source: (Azar & Shafighi, 2013)

Motivation, according to Stooner (2001), is a human mental signature that adds to an individual's level of responsibility; it includes the component that causes channel and supports human behavior in a given

responsibility heading. "Motivation is the administration of knowledge about "what actually matters to people."

The creators believe that human behavior is a result of motivation, in order to achieve their requirements, people engage in questionable behavior. A reason, according to Arnold (2007), is a justification for completing anything. The three (3) aspects of motivation identified by Arnold et al are concerned with the things that influence humans to act in certain ways.

**Direction:** what a person is aiming to do is referred to as their direction.

**Effort:** relates to how hard someone is attempting to do something.

**Persistence:** how long a person tries the organization in general can produce a climate in which indisputable levels of motivation can be obtained by offering rewards and awards, meaningful employment, and options for leaving and progress. The scientist agrees with the creators that human activities and behavior are triggered by drives and requirements to satisfy such desires.

### **Motivational Factors and Staff Execution**

Motivational components, also known as motives, are "things that cause or influence a person to perform." These could include a higher income, a well-known title, a badge on the office door, praise from coworkers, and a

variety of other incentives to perform. This was the point of view of Koontz and his colleagues (2004). Supervisors might use these and other persuasive aspects to persuade workers to give it their all in order to achieve hierarchical goals. There can't be a single best response because motivation is so complex and individualized. Some of the most significant persuasive variables to be aware of are: Encouragement: an organisation's employees play a critical role in achieving its objectives. Employees who are encouraged and given incentives are more likely to do a good job. (Clamber, et al., 2000).

i. **Money** cannot be underestimated as a motivator. Money is crucial, whether it comes in the form of salaries, piecework, or other incentive pay, bonuses, stock options, company-paid insurance, or any of the other items that might be offered to workers for their success. This was Koontz's and Wiehrich's point of view (2003). Money, according to Koontz, is often more than money since it can be a reflection of other motivators.

ii. **Status:** This can be defined as a person's legal, social, or professional status, which has been recognized for ages by churches, the military, and the government, but industry has only recently begun to perceive status as a motivator. Titles, promotions, and symbols like office size and appointment are among

them. A general manager is someone who oversees everything. Membership in a club and a company car status, on the other hand, must be accompanied by corresponding responsibility and authority. Simply appointing a worker as a manager or supervisor without delegating duty and authority may quickly turn sour; not only will the worker be disgruntled, but the respect of other workers may be lost as well.

- iii. **Rewards:** Workers that perform honestly should be openly rewarded, and this should be disseminated as much as possible within the organisation using the most appropriate methods. All workers should be conscious that individuals who are effective enough to be rewarded and encouraged are valued by management, thus prizes for the best performance should be declared in meetings organised for the purpose. This inspires others to follow in the footsteps of the prize winners. Similarly, examples of demotion due to fraudulent conduct, laziness, and/or frequent absenteeism should be made public after the culprit has been punished. This has the effect of teaching discipline because no one wants to be in a horrible situation.
- iv. **Training and development:** Workers must keep up to date on the newest new technologies and management abilities, therefore training and development are

critical. As a result, for maximum efficacy and efficiency, every company should prioritize employee training and development. Ubeku (2005) correctly stated that training and development is a continual activity. Money spent on employee training and development is money well spent. Employees who have not acquired proper triaging prior to being handed duties lack the confidence needed to do the task.

- v. **Other motivational factors:** Other motivating reasons include incentive compensation, promotion, leave, medical benefits, transportation allowance, housing, cafeteria service, job enrichment, decreased working hours, flexible time, strong human relations, and so on.
- vi. The following is the review model, which is based on the prior. A reasoning, according to Carter (2000), is an interior expression that develops, actuates or moves, and coordinates or channels behavior toward goals. Performance is a predicted variable that depend upon a number of variables such as productivity, quality, innovation and responsiveness to the customers. According to him all these four are the building blocks of organizational performance. Motivation gives employees satisfaction, encouragement, enhance their relationship with managers, reduces their supervision, increase

their efforts all these help employees to produce good quality and services.

Nonetheless, Sarry (2001) clarified that motivation is a cycle that repeats itself, and that rousing subordinates is one of the more unpleasant aspects of a chief's job. "The cycle can be said in any case a rationale urge or necessity the individual stand by to complete something," Sarry continued (thought process). This could be a positive desire for something or a need caused by a lack of something. Fulfillment is possible if the individual's actions get him or her closer to the ideal goal. There will be no relief if the techniques are ineffective, and there may be an increase in the want or need.

### **Theoretical Review**

#### **Abraham Maslow Theory of Motivation**

Theories of motivation are collections of interconnected develops or idea definitions and recommendations that present an effective perspective on the peculiarity by indicating relationships among variables determined to clarify and anticipate the peculiarity that are concerned with motivating individuals to work as hard as they can to achieve the organization's goals and objectives.

Prior to Abraham Maslow (2004), analysts focused on aspects such as science, accomplishment, or capacity to identify what stimulates, coordinates, and supports human

behavior on their own. Maslow devised a progressive paradigm of human needs based on two categories: lack and development needs. Each lower requirement should be met before moving on to the next more elevated degree within the insufficiency needs. If, after all of these requirements have been met, a deficiency is discovered at a later period, the single will move to remedy the situation.

Maslow's needs chain of significance hypothesis is one of the most well-known theories of today's workplace motivation, but it wasn't always that way. Despite the fact that the theories were first introduced in the 1940s and continued until the 1950s, Maslow's advancement work was primarily focused on clinical brain research. Despite this, Maslow's need for coordinating with theories evolved in the mid 1960s as an engaging model of human action in associations, as more attention was focused on the job of motivation at work.

Furthermore, as a result of Douglas McGregor's (2000, 2007) advocacy, the model has become widely discussed and used by authoritative analysts and administrators. Maslow had looked into two more requirements in his work, namely intellectual and fashionable, as early as 1954. These models incorporate the desire to learn and the need to satisfy one's curiosity. The need to know and comprehend are referred to as

intellectual demands. Tasteful needs include a desire to strive for perfection while avoiding offensiveness. These two prerequisites were not remembered in any form for Maslow's many levels plans, and as a result, they have been largely excluded from discussions of his ideas as they apply to situations involving associations. People are motivated to do things because of their needs, according to Maslow. Maslow divided human intentions into two categories: development thought processes and hardship objectives. The first type is characterized by a push toward the realization of inherent capabilities, whereas the second is

focused on the maintenance of life rather than its betterment. According to him, hardship intents are arranged in a formative pecking order. They are a group of five people who are well-organised.

Physiological requirements: Homeostasis (the body's programmed efforts to maintain normal functioning), such as hunger and thirst satisfaction, the need for oxygen, and the ability to maintain a steady temperature, are examples. Rest, physical pleasures, action, maternal behavior, and purportedly sexual desire are all on the list.

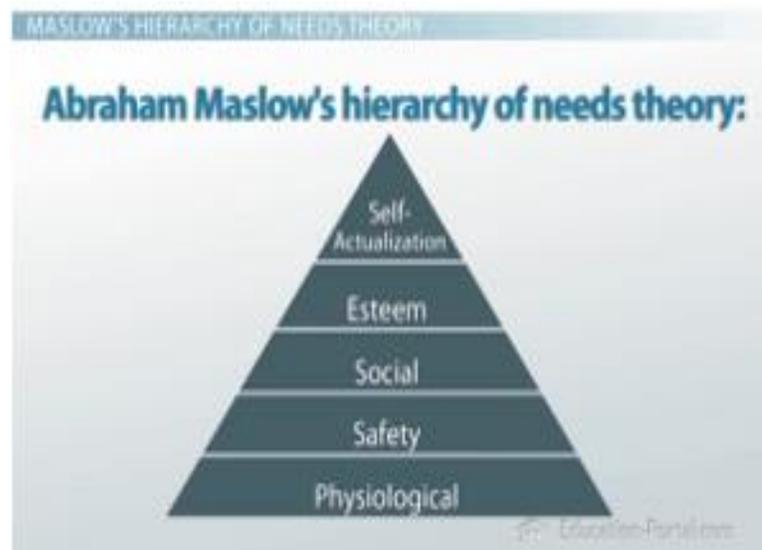


Figure 1: Five Basic human needs (Mcleod, 2018)

- i. Protection against danger or deprivation, as well as the need for predictability and orderliness, are all instances of safety needs.
- ii. Love necessitates (This is often referred to as social.) among these are affection, a sense of belonging, social activities, friendships, and the giving and receiving of love.

- iii. Self-confidence necessitates (sometimes referred to as ego needs). Self-respect and other people's regard are both taken into account. Self-respect encompasses the desire for self-assurance, strength, independence, and freedom, as well as achievement. Others' regard for you is based on your reputation or prominence, your status, your recognition, your attention, and your admiration.
- iv. It is necessary to achieve self-actualization. The process of attaining one's full potential is known as this. What humans can be, they must be, or they must become everything they are capable of becoming, according to Maslow. Self-actualization needs aren't always creative, and they might show out in a variety of ways that vary widely from person to person. Spontaneity, creativity, and appreciation of others are characteristics of a normal individual. He claims that people who do not achieve self-actualization are antagonistic and catastrophic. Maslow imagined a human being who progressed through the five groups of needs, one by one, from one to five. Maslow's idea is difficult to verify precisely, and multiple writers' translations have been used. Audits of the need chain of command model propose that the theory be given limited clear or consistent support, and they raise concerns about the legitimacy of the classification of core human

needs. Nonetheless, emphasize that Maslow recognizes the limitations of his theory and does not argue that it should be used to dictate inexorable, precise assistance. He only suggested that the theory be used as a framework for future research, stating that "it is easier to detect and admonish the attitudes in motivation theory than it is to cure them." Despite the fact that Maslow did not intend for the need progression to be applied to the workplace in the first place, it is nevertheless widely used as a motivation theory at work. Regardless of reactions and worries about its limitations, the theory has a broad impact on how boards deal with motivation and how associations intend to address specific issues. It's a useful structure for reviewing the numerous needs and assumptions that people have, where they sit in the hierarchy, and the many motivations that can be used to motivate people at various levels. Maslow's work has energized review and study by causing people to identify various reasons. The need chain of command model provides a useful foundation for assessing workplace motivation.

### **Frederick Herzberg Two Factor Theory of Motivation**

Herzberg (2003) was a personal friend of Maslow's and a believer that Motivation is based on a two-factor theory. He claimed that

a corporation may provide some traits that would directly drive people to work more diligently (Motivations). However, there were other factors that might de-inspire a worker if they were absent, but which would not, in and of themselves, motivate sales people to work more rigorously (Cleanliness factors). The primary focus of motivations is on the job itself. Consider how interesting the work is and how much freedom it offers in terms of increased responsibility, recognition, and advancement. Rather than the work itself, cleanliness will be a factor that encompasses the task. For example, an expert may be motivated to work if a company offers a competitive wage and safe working conditions, but these factors will not motivate him to work more enthusiastically once he is on the job. In contrast to Taylor, who considered pay and piece-rate as equally important, Herzberg saw pay as a cleanliness issue. Specifically, Herzberg agreed that firms should motivate employees by taking a popularity-based approach to dealing with CEOs and focusing on the nature and content of the actual job through targeted methods. Supervisors could utilize a variety of methods to accomplish this, including:

Occupation amplification entails giving workers a wider range of tasks to complete

(rather than just testing), which should make the work more interesting.

Occupation progression is giving workers a broader range of increasingly difficult, interesting, and challenging tasks that cover a whole unit of work. This should result in a greater sense of accomplishment.

Strengthening entails giving representatives the power to make their own decisions about the places in which they work. From the above, the recorded thoughts are related to the topic of providing superior working conditions for representatives in order for them to flourish and operate on hierarchical execution. The preceding hypotheses explain particular variables that when supplied, would aid in rousing and working on hierarchical execution. Frederick's cleanliness factors, for example, are factors that envelop the task rather than the actual work. Such factors include remuneration, medical benefits, rewards, grants/acknowledgement, wages pay raise and so on. When these are taken into account, they aid in the development of motivation.

### **Empirical Review**

In a number of Nigerian insurance firms, Oluwayomi (2018) investigated the impact of motivation on worker execution. According to the research, motivation is a complex combination of elements that drive a person's

desire and ability to behave at work in order to reach hierarchical goals or destinations. The important information was gathered from a sample of 100 respondents from the chosen insurance agency, which included administration, senior, and junior staff members. To dissect the key information, basic rates, conveyance tables, and pie outline measurable apparatuses were used, while Chi-Square ( $\chi^2$ ) was used to test the main hypothesis stated for the review at 0.05 degree of importance. The findings revealed that motivation was the most important factor influencing representative presentation. Furthermore, the analysis revealed a direct, substantial, and favorable link between representatives' motivation and their presentation. As a result of this focus, supervisory groups in organizations should continuously deliver a thorough report on the various persuasion apparatuses that can chase and drive their workers. Involvement of representatives in decision-making, pivot of representatives, arrangement of incidental benefits, distribution of awards to workers, and advancement of merited employees to higher positions of authority are all examples of motivational techniques.

In addition, David (2014) examined the impact of motivation on representative performance in the Ghanaian assembly

industry. According to the study, the constant adjustments that are occurring on the globe nowadays, notably in terms of innovation and development in new products and services, require organizations to reconsider how they handle their representatives. The purpose of the study is to see how motivation affects worker performance in Ghana's assembly industry. This activity looks into the effects that motivation has on worker performance. The review looked at a few need and motivation hypotheses to see what factors might influence representatives' motivation. The findings revealed that representatives workers who were more enthused about their jobs were more satisfied with their work and are less likely to leave the company, but de-enthused employees had a bad impact on the exhibition. They discovered a few of the dissatisfaction factors that cause employees to leave the organisation, including work environment viciousness, work environment peril and wounds, long working hours, impact of night shift, deficiency issue, feeling short on, outlandish responsibility, and lack of appreciation. The findings of this study provided information on what improvements might be made to help representatives be more effective in their workplace. In light of the findings, appropriate recommendations were also made to assist executives of

manufacturing businesses in further developing their worker motivating approaches.

Githinji (2014) also conducted a study on the effects of training on representational execution in the United Nations Support Office for the African Union Mission in Somalia. The goal of the study was to look into the effects of planning on representative execution among global government personnel. The preceding test questions guided the review: What is the role of representative commitment preparation? What is the purpose of worker motivation preparation? What is the purpose of worker work fulfillment preparation? For the study, a review research configuration was used. The review design was appropriate for Githinji's study since it allowed the examination of potential linkages between factors as well as information collection from a larger class and factor correlations. The review population consisted 144 members of the African Mission in Somalia's Assembled Countries Backing Office. From a rundown of test plan provided by the representative registration at UNSOA, an example of 45 was produced using irregular delineated scrutinizing come closer. The data was acquired through the use of a survey.

Frequencies, implications, rates, fluctuation study, and bivariate investigation in kind of cross organisations were all part of the data

analysis. Tables and figures were used to present the findings. The impact of job preparation on worker commitment was examined, and it was discovered that overall preparation enhances representative commitment in change processes. In comparison to those in the center level administration, high level administration and non-administration executives employees were more likely to be initiated in assuming new tasks after going through training. Preparing also persuades the high level to be focused on taking initiatives to assist various workers. For center-level administration and non-administration workers, this scenario may not be relevant. Aside from the focus, it was also demonstrated that preparation upgrades signify advancement commitment. Third, the review revealed that preparation increases representative execution, and last, the review revealed that preparation boosts worker motivation to work. The impact of training on employee motivation was investigated, and it was discovered that training enhances representative motivation by taking into account employee recognition within the organization. Furthermore, planning helps workers adjust to UNSOA's hierarchical aims and preparation, however, improves positive authority qualities in the association's leaders.

Muogbo, (2013) explored the impact of employee motivation on hierarchical execution using some selected enterprises in Anambra State, Nigeria. The study looked at how representational motivation affects hierarchical execution in selected fabricating enterprises in Anambra State. In Anambra State's three senatorial zones, 103 respondents were chosen from 17 assembling enterprises. In the study, 120 workers from various fabrication enterprises in Anambra State were counted.

The review addressed three exploratory questions modeled for the review using unmistakable insights (frequency, mean, and rates). The three theories that guided the review were tested using the Spearman Rank Connection Coefficient. The findings of the investigation revealed that there was a link between representational motivation and authoritative exhibition. Extraneous motivation offered to workers in an organisation has an impact on the specialists' performance, according to the study. This is in line with value theory, which states that decency in the wage package results in better laborer performance in general. According to the expert, in order to increase efficiency, all enterprises should accept outward compensations in their various businesses. Businesses are constantly evaluated to foster

compensation techniques and procedures that enable them to attract, propel, hold, and fulfill their representatives based on these discoveries. As a result, the analyst proposes that more research be conducted on the relationship and impact of remunerations on professional performance using a variety of private and public organisations, as this will be a useful tool that can be used to provide answers for individual struggle that arises as a result of the helpless reward system.

It is discovered that most of the reviewed studies employed chi-square to analyze data; some of the studies were conducted outside of Nigeria, while those conducted in Nigeria excluded Kwara state. As a result, this research aims to fill the highlighted gap by determining the impact of motivation on employee performance in Kwara state Internal Revenue Service in Kwara state, Ilorin.

#### **4.1 Methodology**

The study used a survey research design, in which the data were gathered from a random sample of people (primary data). Then, the data were coded and analyzed using descriptive statistics, while regression and correlation coefficient inferential statistics were employed to test the hypotheses at a 5% level of significance. A survey questionnaire was used to collect the data for this purpose. The population of Kwara State Internal

Revenue staff is the topic of this study. As a result, because the total population is 80, the study relied on a population census.

**Reliability Statistics**

Cronbach's Alpha	N of Items
.967	6

The calculated Cronbach’s Alpha shows a value of 0.967 for 6 items. This indicates the reliability test score for this instrument and falls in the good range of internal consistency according to the commonly accepted rule for describing internal consistency.

**Analyses of Hypotheses**

The following stories were created using the information gathered from the questionnaire

**H<sub>01</sub>:** Motivation has no significant impact on employee’s performance in Kwara State Internal Revenue Service

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986 <sup>a</sup>	.972	.972	.69521

a. Predictors: (Constant), Motivation

As indicated in the table above, the R Square of the model is 0.972, meaning that the independent variable (motivation) explains 98% of the variation in the dependent variable (employee performance), with the error term

accounting for the remaining 2%. The regression (formulated model) is good for making predictions because the R2 value is close to 1.

**ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	1246.168	1	1246.168	2578.344	.000 <sup>b</sup>
Residual	35.766	74	.483		
Total	1281.934	75			

a. Dependent Variable: Employee performance

b. Predictors: (Constant), Motivation

The table above summarized the results of an analysis of variation in the dependent variable with a large value of regression sum of squares (1246.168) in comparison to the residual sum of squares with a value of 258.448 (this value indicated that the model does not fail to explain a lot of the variation in the dependent

variables). However, the significant value of 0.000 in the estimated F-value (2578.344) in the table above is less than the p-value of 0.05 (p0.05), showing that the independent factors as a whole can influence the dependent variable's increment (employee performance).

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

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.452	.225		2.010	.048
<sup>1</sup> Motivation	.959	.019	.986	50.777	.000

a. Dependent Variable: Employee performance

Employee performance was the dependent variable, as seen in Table 35. This was utilized as a benchmark for assessing the influence of the two variables (i.e. motivation and employee performance). Motivation is one of the predictors, and as seen in the table above, motivation has an impact on employee performance at the Kwara State Internal Revenue Service. According to the table above, the t-test coefficient for short listing is 50.777, and the P-value is 0.000, which is less than 0.05 (i.e. P0.05). This means that these variables are statistically significant at a 5%

significance level. Because the p-value is less than 0.05, the null hypothesis (HO) is rejected as a result of the findings. As a result, the alternative hypothesis that motivation affects Kwara State Internal Revenue Service personnel performance is accepted. According to the data, motivation has a significant impact on worker performance in the Kwara state internal revenue department.

H<sub>02</sub>: Examine the link between incentive and employees performance in Kwara State Internal Revenue Services

**Descriptive Statistics**

	N	Mean	Std. Deviation
Increment in salary increases employees' performance.	76	1.8553	.74304
Provision of medical assistance scheme increases employees' performance	76	1.8158	.76089
Access to company's loan increases employees' performance	76	2.0132	.79151
Provision of life insurance policy for employees increases their performance	76	2.0132	.88684
Training and development policy help to increase employee's performance.	76	1.6842	.57063
Valid N (listwise)	76		

Source: Authors' Computation, 2021

The following table shows the descriptive statistics for the variables relevant to hypothesis two: In the Kwara State Internal

Revenue Services, there is a link between motivation and staff performance.

**Correlations**

		Motivation	EmployeePerformance
Motivation	Pearson Correlation	1	.986**
	Sig. (2-tailed)		.000
	N	76	76
EmployeePerformance	Pearson Correlation	.986**	1
	Sig. (2-tailed)	.000	
	N	76	76

\*\* . Correlation is significant at the 0.01 level (2-tailed).

From the above table, a correlation analysis was run to determine the relationship between motivation and employee performance, there was a strong, positive correlation between motivation and employee performance which was statistically significant ( $r = .986$   $n = 76$ ,  $p = .000$ ). Hence, for hypothesis II, the results suggested that there is significant relationship between motivation and employee performance.

**Discussion of Findings**

According to the results in the Table 3 above, there is a considerable impact of motivation on employee performance, as evidenced by the t-test coefficient of 50.77 and the p-value of 0.000, which is less than 0.05 (i.e.  $p < 0.05$ ). This indicates that the variables are statistically significant at the 5% level. However, because the p-value is less than 0.05, the null hypothesis  $H_0$  is rejected because of the

results. Furthermore, the alternative hypothesis is accepted, according to which employee motivation has a considerable impact on KWIRS performance.

The foregoing is in line with Oluwayomi (2018) who discovered a direct and positive association between employee motivation and performance. In order to pick the respondents, Oluwayomi employed stratified and simple random sampling procedures. Simple percentages, distribution tables, and pie charts statistical tools were also utilized to evaluate the basic data, with chi-square being employed to test the hypothesis. It was also shown that motivation was the most important element affecting employee performance. This is consistent with our findings, and we have not diverged from the previous studies.

David (2014) also looked into the effect of motivation on employee performance in Ghana. He discovered that individuals who were more motivated in their employment were more content with their work and were less likely to leave the company, but that demotivated employees had a detrimental impact on performance. The goal of the study was to see how motivation affected employee performance in Ghana's manufacturing industry. The project investigated the impact of motivation on job performance, concluding that motivation had a direct and positive link

with job performance. This is consistent with the conclusions of the present investigation, and this study has not diverged from previous empirical findings in this regard.

Furthermore, the study's findings suggested that there is a link between employee motivation and performance, as seen in Table 5 above, where the statistically significant result is ( $r = .986$   $n = 76$ ,  $p = .000$ ).

### **Conclusion**

Finally, this research looked into how motivation affects staff performance in the Kwara State Internal Revenue Service. According to the findings, motivation has an impact on employee performance. The respondents believe that even if there is income increase on a regular basis, their motivational factors change with time, and that what inspires them today may not excite them tomorrow. Based on the above, motivation has a substantial impact on employee performance, is an inner condition that emerges, activates or moves, and directs or channels action toward a goal.

Employees that are driven are more productive, which helps the company survive. To be effective, managers must understand what drives people in the work they do, as well as recognize motivation and performance to determine the impact of motivation on employee performance. They must also be

aware of basic need theories that can aid in the resolution of these problems. We have also looked at the effects of motivation on employees in this study through focussing on performance quality. To avoid their staff from burning out or becoming demotivated, managers in any organization must know how to motivate people. Employees who are unmotivated can be extremely ineffective at work. Finally, motivation has a positive impact on the overall performance of Kwara State Internal Revenue Agency staff.

### **Recommendations**

According to the findings of the study, both intrinsic and extrinsic rewards are equally significant in motivating employees to perform at their best. As a result, managers should keep these in mind as they devise new strategies to incentivize their personnel to provide exceptional service. Managers should consider developing their organizations' human capital by providing possibilities for promotion. Managers should also consider a robust training and development policy to assist employees perform better in the workplace.

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## Exploring the Dynamics of Women Entrepreneurship: A Conceptual Analysis

By

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### Abstract

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*Women entrepreneurship has turned into a quickly developing field of examination lately. The unique difficulties, opportunities, and dynamics of women starting and growing businesses are the subject of this study. By examining the key factors that influence women's entrepreneurial activities, the obstacles they face, the opportunities they have, and the support strategies they can use, this study aimed to provide a conceptual analysis of women entrepreneurship. A qualitative approach to analysis was used in the research, which draws on previously conducted studies and literature. The main findings of the study showed that women entrepreneurs face a lot of problems, like having too little access to finance, networks, and markets, having social and cultural biases, and having problems with work-life balance. Women entrepreneurs, however, have access to new technologies and opportunities to alter social norms and attitudes toward women in business. The exploration likewise examined techniques to help ladies business visionaries, including giving admittance to fund, organizations, and markets, offering preparing and tutoring programs, establishing a steady strategy and administrative climate, and changing social and social standards and mentalities towards ladies in business. According to the findings, it is essential to have a comprehensive understanding of the dynamics of women entrepreneurship in order to develop policies and programs that support women entrepreneurs which lead to economic development that is more sustainable and inclusive.*

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**Keywords:** *Women Entrepreneurship, Access to finance, Work-life balance, Innovation, Job creation*

### 1. Introduction

Women Entrepreneurship has turned into an undeniably significant subject of examination and strategy consideration as of late. The unique challenges and opportunities that women entrepreneurs face necessitate a comprehensive investigation of the factors that influence their entrepreneurial activities. Even though women entrepreneurship is receiving more and more attention, a thorough understanding of the dynamics involved is still

required. The purpose of this paper is to provide a conceptual analysis of women entrepreneurship by looking at the main factors that influence their activities, the obstacles they face, the opportunities they have, and the support methods they can use. The social, economic, institutional, and personal factors that influence women entrepreneurship are examined in this paper,

which draws on existing research and literature.

The paper is coordinated as follows: An overview of the significance of women entrepreneurship to the global economy is provided in the first section. Social, cultural, economic, institutional and policy factors, and individual factors like education and experience are all discussed in the second section in relation to the key factors that influence women entrepreneurial activities. The difficulties that women entrepreneurs face are highlighted in the third section. These difficulties include issues with work-life balance, limited access to networks, markets, and finance, as well as social and cultural biases. The fourth segment investigates the amazing open doors accessible to ladies business visionaries, including admittance to new advancements, changing accepted practices and perspectives towards ladies in business, and the developing interest for items and administrations that take special care of the requirements and inclinations of ladies. Lastly, the fifth section talks about ways to help women entrepreneurs, such as giving them access to markets, networks, and finance, providing training and mentoring, creating a policy and regulatory environment that is supportive, and changing social and

cultural norms and attitudes toward women in business.

### **1.1 An overview of the importance of women entrepreneurship in the global economy**

Since it altogether adds to monetary development, work creation, and neediness decrease, women entrepreneurship is fundamental for the worldwide economy. It is common knowledge that women entrepreneurs boost economic activity, innovation, and job creation. According to the Global Entrepreneurship Monitor, women entrepreneurship contribute \$5 trillion to the global economy each year. This underlines the meaning of female business venture in driving development and improvement as well as the financial potential it has.

Additionally, women entrepreneurship likewise engages ladies by furnishing them with monetary freedom, initiative abilities, and self-assurance. Women who start their own businesses often use them to help their families, communities, and other women, making them social change agents. Countries can promote gender equality, which is essential to achieving sustainable development, by encouraging women to start their own businesses.

Women entrepreneurship also makes the economy more diverse and inclusive by providing opportunities for women from

different backgrounds and increasing the number of women in leadership roles. This is very important because it helps to get rid of gender stereotypes and obstacles that make it hard for women to get involved in the economy. Also, women entrepreneurship frequently make organizations that address social and ecological difficulties, like reasonable farming, environmentally friendly power, and medical services. This has a significant impact on society and makes the world a better place for everyone.

However, despite the significant contributions made by women entrepreneurs, they continue to face numerous obstacles, including restricted access to networks, information, and funding. To ensure that women entrepreneurship continue to play a significant role in the global economy, it is essential to address these obstacles. State run administrations, worldwide associations, and the confidential area need to cooperate and establish an empowering climate for women entrepreneurship, including giving admittance to fund, data, organizations, and tutoring programs.

The promotion of economic growth, empowerment, diversity, inclusivity, and social impact by women entrepreneurs is crucial to the global economy. Tending to the difficulties looked by women entrepreneurs is essential to guarantee that they can keep on

making a critical commitment to the worldwide economy. By putting resources into ladies business venture, nations can advance manageable turn of events, orientation equity, and a superior future for all.

## **2. Literature Review**

As an increasing number of women start and run their own businesses, women entrepreneurship is gaining traction worldwide. In developing nations, women entrepreneurs play a crucial role in driving economic growth and job creation. However, there are still a lot of obstacles that stand in the way of women starting and growing successful businesses. In order to create an environment that encourages women to succeed as entrepreneurs, it is essential to comprehend the key factors that influence women entrepreneurship. This writing audit gives an outline of the key factors that impact ladies enterprising exercises.

### **2.1 Key factors that influence women entrepreneurial activities**

Education is a basic element that impacts women entrepreneurial innovative exercises. Women gain the knowledge and abilities they need to start and run successful businesses through education. Admittance to schooling and preparing projects can assist ladies with conquering obstructions to business venture,

like absence of information, abilities, and self-assurance (Kumar & Jain, 2016).

Another important factor that affects women entrepreneurship is access to financing. Discriminatory lending practices and a lack of collateral frequently make it difficult for women to obtain financing. They are unable to establish and expand successful businesses as a result of this. Supporting women entrepreneurs necessitates ensuring equal access to financial resources (Ahl, 2006).

Women's potential as entrepreneurs can be significantly impacted by cultural and social norms. In certain social orders, women are supposed to focus on their family obligations over their profession desires. According to Kabeer (1999), changing these attitudes can contribute to the creation of a favorable environment for women entrepreneurship.

Promoting women's entrepreneurial endeavors necessitates strong support networks. Women entrepreneurship benefits from strong organizations of companions, tutors, and counselors who can give direction and associations. Women can overcome obstacles and establish successful businesses with the assistance of supportive networks (Brush et al., 2012).

The lawful and administrative climate can influence women entrepreneurship. Discriminatory laws and regulations, for

example, make it difficult for women to start and run their own businesses. To encourage women to start their own businesses, a supportive legal and regulatory framework must be created (Kelley et al., 2016).

Women's entrepreneurship can be significantly impacted by having access to technology and infrastructure like internet connectivity, transportation, and logistics. Further developing admittance to innovation and framework can assist ladies business people with conquering geological boundaries and access new business sectors (World Bank, 2016).

Entrepreneurship by women is a key factor in global economic expansion, job creation, and poverty reduction. However, there are still a lot of obstacles that stand in the way of women starting and growing successful businesses. In order to create an environment that encourages women to succeed as entrepreneurs, it is essential to comprehend the main factors that influence their activities. Promoting women entrepreneurship and achieving sustainable development necessitates addressing these factors.

## **2.2 Challenges Faced by Women Entrepreneurs**

There are numerous obstacles that women entrepreneurs must overcome in order to establish and sustain successful businesses.

Discriminatory lending practices and a lack of collateral limit women entrepreneurs' ability to obtain the capital they require to establish and expand their businesses, making access to finance a significant obstacle (Nkwetta & Yuh, 2021). Orientation predisposition and segregation can thwart ladies' advancement in the business world, with women entrepreneurs encountering inconsistent compensation, limited admittance to administrative roles, and trouble getting agreements and associations (Ahmed et al., 2021).

According to Sanchez-Garca et al., it is difficult for women to effectively establish and manage their businesses because they often have to balance their work and family responsibilities. According to Welter and Brush (2019), a lack of supportive networks, such as mentors, advisors, and peers, may also hinder the growth of women entrepreneurs' businesses. Women entrepreneurs may also find it challenging to expand their businesses and gain access to new markets due to restricted market access, particularly in industries dominated by men (Kula & Akman, 2021).

Additionally, it can be challenging for women to establish and expand their businesses due to cultural and societal obstacles that prevent them from doing so. According to Moser and Korstjens (2020), some cultures and societies

do not permit or encourage women to engage in entrepreneurial activities, which further restricts their opportunities. Last but not least, women entrepreneurs may experience low self-esteem and imposter syndrome, which may prevent them from pursuing their entrepreneurial goals (Kong et al., 2019).

Promoting women's entrepreneurship and creating a more equitable and inclusive business environment require addressing these obstacles. Policies and initiatives that promote women entrepreneurship, improve access to finance, and eliminate gender bias and discrimination must be developed together by governments, financial institutions, and other stakeholders (Kula & Akman, 2021). Women entrepreneurs can also overcome these obstacles and successfully expand their businesses by establishing educational opportunities, mentoring programs, and supportive networks (Welter & Brush, 2019).

### **2.3 Opportunities for Women Entrepreneurs**

There are numerous opportunities for women entrepreneurs to succeed and thrive in the business world, despite the difficulties they face. Climate change, poverty, and inequality are just a few of the social and environmental issues that women entrepreneurs can address by utilizing their individual perspectives and experiences to come up with novel solutions. The National Women's Business Council

(NWBC) conducted research that found women-owned businesses are more likely than male-owned businesses to have a social or environmental mission (NWBC, 2019).

Diversity and inclusion are also brought to the business world by women entrepreneurs. Various groups have been demonstrated to be more creative and useful, prompting better business results (Chase et al., 2018). Women Entrepreneurs can use this benefit to make more comprehensive and inventive arrangements. Women entrepreneurs also have access to support networks and get support, resources, and connections through mentoring programs, business incubators, and networking groups (Welter & Brush, 2019).

Women entrepreneurs are also getting better access to funding. Drives, for example, the Ladies Business visionaries Money Drive (We-Fi) and the Women Entrepreneurship program in the US are committed to giving subsidizing and backing to ladies business people (World Bank, 2020). Women entrepreneurs have also benefited from the expansion of the digital economy, particularly in online education, digital marketing, and e-commerce. Ladies business people can use these chances to get to new business sectors and clients, especially in areas that take care of women's necessities, like medical services,

schooling, and childcare (Budiman et al., 2020).

Last but not least, women entrepreneurs have the option of establishing work schedules that are adaptable to their needs, allowing them to maintain a healthy work-life balance. This may ultimately benefit their businesses because it may result in happier and more productive workers. It is essential to continue supporting and promoting the entrepreneurship of women because they have numerous opportunities to succeed and contribute significantly to the business community.

### **3. The Role of Women Entrepreneurs in Economic Development**

By creating jobs, driving innovation, and promoting social and environmental sustainability, women entrepreneurs are crucial to economic growth. Women entrepreneurs play a significant role in economic growth in the following key ways: Women entrepreneurshave turned into a fundamental piece of financial improvement as of late. They are adding to the monetary development of countries through different means. According to Budiman et al. (2020), one of the significant contributions that women entrepreneurs make is the creation of jobs, particularly in sectors that cater to the requirements of women, such as childcare, education, and healthcare. Women

entrepreneurs also bring a variety of experiences and points of view to the business world, which can result in solutions that are more creative and inclusive (Hunt et al., 2018). They are more likely to create goods and services that address social and environmental issues like poverty, inequality, and climate change. In this manner, ladies business visionaries advance monetary development by beginning and developing organizations, expanding efficiency and proficiency, and setting out new business sectors and open doors.

Women entrepreneurs can likewise add to social and natural maintainability. According to NWBC (2019), they are more likely to give social and environmental sustainability a higher priority in their businesses and to make investments in their communities to support local development initiatives. By providing opportunities for education, skill development, and leadership, women entrepreneurs can also empower themselves and others. They can also promote social and economic development by being role models and advocates for gender equality and women's rights.

In addition, women entrepreneurs can boost a nation's global competitiveness by fostering innovation and entrepreneurship, expanding a robust business network, and contributing to

the economy's diversification and growth. By providing low-income communities with access to goods and services that are essential to their well-being and by creating jobs and opportunities for them, women entrepreneurs can play a crucial role in the fight against poverty. Therefore, it is essential to encourage and support women entrepreneurship in order to construct an economy that is more equitable, inclusive, and to everyone's advantage.

As a result, women entrepreneurs are critical to economic growth because of their contributions to job creation, innovation, environmental and social sustainability, and empowerment of themselves and others. Nations have the potential to develop the economy that is more equitable, more welcoming, and to everyone's advantage if they encourage and support women entrepreneurship.

#### **4. Strategies to support women entrepreneurs**

Women entrepreneurs can be supported and promoted through a number of methods, including:

Financial options: Giving women entrepreneurs admittance to back is critical for beginning and developing organizations. This may include programs like microfinance, grants and loans from the government, venture

capital funds just for women-owned businesses, and so on (Bjarn & Buur, 2021).

**Networking and mentoring:** Mentoring and networking programs can help women entrepreneurs make connections, get support, and get advice. Business incubators, accelerators, and peer-to-peer networks are examples of this (Gupta & Turban, 2021).

**Development of skills and education:** Women entrepreneurs' business acumen can be enhanced and their chances of success enhanced by providing educational and skill-development opportunities. This may include initiatives like workshops, online resources, and training programs for entrepreneurs (Zapata et al., 2021).

**Regulations and policies that are gender-sensitive:** Policies and regulations that support women entrepreneurs and promote gender equality can be implemented by governments. This can incorporate drives, for example, orientation planning, acquirement arrangements that advance ladies claimed organizations, and guidelines that deny orientation based separation (Gaziulusoy et al., 2021).

**Public-private organizations:** In order to assist women entrepreneurs, public-private partnerships can make use of the expertise and resources of both the public and private sectors. This can incorporate drives, for

example, joint financing projects, mentorship and systems administration occasions, and coordinated efforts on innovative work (Shih, 2020).

**Overcoming barriers imposed by society and culture:** Tending to social and cultural obstructions that keep ladies from beginning and developing organizations is fundamental for supporting women entrepreneurship. This can incorporate drives, for example, missions to challenge orientation generalizations, backing for ladies' privileges and strengthening, and backing for women drove associations and drives (Alvord et al., 2021).

We can make it easier for women entrepreneurs to start and grow successful businesses by putting these strategies into practice. Individuals, communities, and entire nations can all reap significant economic and social benefits from this (Cantatore et al., 2021). In general, a comprehensive examination of the factors that influence women's entrepreneurial activities, the obstacles they face, the opportunities they have, and the strategies that can be used to support them is necessary to comprehend the dynamics of women's entrepreneurship. This calculated examination can illuminate strategies and projects that help ladies business people, prompting more

comprehensive and practical financial turn of events (Gupta & Turban, 2021).

## **5. Conclusion**

Women entrepreneurship is an imperative and developing part of the worldwide economy. Due to social, cultural, and economic factors, women entrepreneurs face unique challenges, but they also have unique opportunities to develop novel solutions and contribute to economic growth, social and environmental sustainability. Supporting women entrepreneurs requires a diverse methodology, including admittance to fund, mentorship and

systems administration, schooling and abilities improvement, orientation responsive strategies and guidelines, public-private organizations, and tending to social and cultural boundaries. By advancing and supporting women entrepreneurship, we can make a more comprehensive and impartial economy that benefits everybody. Women entrepreneurs can be powerful advocates for women's rights and gender equality while also driving innovation, creating jobs, and promoting social and environmental sustainability.

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## Bootstrapping Finance and SMEs Performance during COVID-19 Pandemic in Nigeria

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### Abstract

*The Covid-19 pandemic distorted the formal funding system for small and medium enterprises here referred to as SMEs by the banking sector in Nigeria. This can be seen from the inability of the banks to provide loans to SMEs due to the effect of the pandemic on their operations necessitating SMEs to look backward means of funding their operations. The objective of the study is to assess the relationship between bootstrapping finance and SMEs' performance during Covid-19 pandemic in Nigeria. In achieving the said objective, the study applied the questionnaire method on 4 Likert's rating scales to 342 SMEs as the sample size out of a total population of 2441 registered SMEs (NBS, 2017) in Kano State using a simple random probability sampling technique. The study employed multiple regression analysis as a statistical technique and finding indicates both the minimisation of account receivable, joint utilisation of assets, and delaying payment to suppliers positively, and significantly influence SMEs' performance in the study area. The study recommends that the minimisation of account receivable, joint utilisation of equipment and delay payment to suppliers should be used by SMEs as strategies to enhance their performances whenever external funding is not accessible due to the pandemic.*

**Keywords:** Bootstrapping finance, Covid-19, Joint Utilisation of Assets, Minimisation of Account Receivable, SMEs Performance

### Introduction

#### 1.1 Background of the Study

Small and Medium Scale Enterprises here referred to as SMEs contributed largely to the global economy when compared to other sectors. For instance, SMEs represent about 90 percent of global businesses (USA 99%, UK 99.7%, and Nigeria 99.8%) (International Trade Center [ITC], 2020; Price Waterhouse Coopers [PWC], 2020) and more than 50 percent of employment worldwide (US 55%; France 61% and UK 54%, Nigeria 84%). The contribution of SMEs to global GDP is (USA

44%, UK 51% Nigeria, 49%) (ITC, 2020; PWC, 2020). Despite the above-mentioned contributions, many studies argue that SMEs are more vulnerable to externalities especially when the global economy is witnessing shocks. Recent studies (Bouyeg, 2020; Amuda, 2020) opined that what makes SMEs vulnerable is owing to the peculiar features characterizing the enterprises, which among others include; small capital, the limited scope of operations, inability to keep proper records and lack of collateral to secure a bank loan.

The devastating global economic downturn due to Covid 19 pandemic originating from Wuhan in late 2019 affected SMEs' performance (WHO,2019; Adian, Daumobia, & Gregory, 2020). The pandemic is considered a public health issue, however, attempts to contain the spread of the novel virus through mitigating strategies (lockdown, social distancing, quarantine, and restriction of movement) bring global banking activities to their knees with a particular reference to SMEs (Catalan, Pietro & Ponce, 2021; Bloom, Bonn & Mizen, 2020; Women Entrepreneurs Financial Invention [WEFI], 2020).

Oyewole, et al (2020) in their study estimated the impact of Covid 19 on SMEs, evidence from Nigeria. The study found out that the palliative measures taken by the government to restrict movement or imposed a total lockdown have a significant effect on small and medium enterprises' productivity in Nigeria. The devastating nature of the pandemic according to some reports affected nearly half of the population of the country, especially those that are at the mercy of hunger (85.2 million) at the same time negatively affecting the productivity of 41.5 million SMEs (ITC, 2020). To the statistics above, SMEs are on the verge of collapsing (Da, Feng & Jin, 2021).

Another consequence resulting from the pandemic is difficulty to access funding by SMEs from the formal institution since the Nigerian banking sector, cannot exercise its intermediation role to provide term loans or equity financing to SMEs, especially during this period of the pandemic (Ozcan, 2020). Banks cannot collect deposits as before, branches are closed, employees are restricted indoors, and increase in loan default and non-performing loans keep on increasing in the daily records of the banks (Kunt, Pedraza & Ortega, 2020). To stimulate the intermediation functions of banks, governments at various levels responded positively (Klynveld Peat Marwick Goerdeler [KPMG], 2020) by ejecting billions of Naira as well as exercising both monetary and fiscal policies, particularly for banks and SMEs. the mitigating effect of Covid 19 pandemic necessitates SMEs to adopt bootstrapping strategies to remain relevant and address the insolvency and liquidity problems using an internally generated source of funding. Studies (Muo et al., 2020) across the globe, for example, in the United States of America, Iran, and Malaysia indicated the influence of bootstrapping on SMEs' performance in terms of output, sales, employment, and contribution to Gross Domestic Product (GDP) during the pandemic. However, in Africa with a

particular reference to Nigeria, such a study does not receive proper attention.

## **1.2 Statement of the Problem**

Despite the contributions of SMEs to Nigeria's Gross Domestic Product (GDP), provision of employment, poverty reduction, and revenue, the enterprises are relegated to the background in terms of financial funding when compared to the other sectors of the economy (Banji, 2020; Aguwanba & Ekienabor, 2017). The devastating nature of Covid 19 pandemic on the global economy opened another window for SMEs in Nigeria to seek redress in terms of funding (Popoola,2020), looking at how the mitigating effects to contain the spread of the virus through the shutdown, lock up, quarantine and restriction of movement affect the SMEs performance level ( WE-FI, 2020). This makes it difficult for SMEs to perform their traditional function as production stops, sales volume moved to zero level and markets are closed. These scenario leads some enterprises to close their businesses temporarily while others closed permanently thereby creating another vacuum in the country's employment level (Price Waterhouse Coopers [PWC], 2020; Bartic, et al., 2020; Lakuma & Sunday,2020). The insolvency and liquidity problems faced by SMEs during the period seek redress, especially where banks cannot

provide funding to address the mitigating effects of the pandemic. As an alternative to external financing, Zwane and Nyide (2016), Banji, (2020), Mabonga (2020); Block, Fish and Hirashmann (2021), suggested that bootstrapping financing can augment the services of bank funding, especially in a situation of global financial crisis. Reports from countries such as China, America, Belgium, Germany, Kenya, and South Africa indicated that SMEs that strategically positioned themselves in these counties using bootstrapping stand a better chance to survive during Covid 19 pandemic.

However, Zwane and Nyide (2016) opine that most business owners are not aware of the strategies, only owner capital for the start-up business is put into practice, while joint utilization, minimization of accounts receivable, and delaying payment was not practiced by the majority business owners in a developing economy.

In Nigeria, during the pandemic, a Plethora of studies do not emphasize investigating the relationship between bootstrapping financing and SMEs productivity during the pandemic. The study, therefore, seeks to answer the following question: Can bootstrapping finance provide sufficient funds to enhance SMEs' performance during Covid 19 pandemic?

## **2.0 Empirical Review and the Development of Research Hypothesis**

### **2.1 SMEs Performance**

Small and Medium Scale Enterprises here referred to as SMEs have no distinctive acceptable unique definition (Amuda, 2020). However, in Nigeria context, the Central Bank of Nigeria defined Small and Medium Enterprises (SMEs) as entities with an asset base of N5 million and not more than N300 million excluding land and buildings with employees not more than 300 and turnover not less than 100 million per annum (Banji, 2020). Despite their limitations, researchers (Bloom, et al, 2020) believed that SMEs, play a crucial role in economic development. For instance, Zeidy (2020) acknowledged that SMEs drive growth, create employment, and provide goods and services.

The concept of performance is viewed as achieving or excelling in one's specific area of activity (Mahudov & Kovacs, 2018), which is used as a measurable achievement in a certain domain of activity. In their contribution, Collins, Remigious and Amarachi (2022) argued that business performance could be viewed from the financial or nonfinancial aspect of an organization. Further, they emphasized how well a firm uses both financial and non-financial measures to gauge and identify where there is an improvement

and the areas in which the business is lagging behind.

Aminu and Shariff (2015) defined SMEs' performance as thriving ways management manages the firm resources to provide value to its stakeholders, such as owners, customers, society, and the government. This means stakeholders' satisfaction determines the level of SMEs at a high, average, or low level of performance. The performance of SMEs in terms of productivity, revenues, employment, and sales at the global level deteriorated since the beginning of covid-19 pandemic (Calva, 2020; World Bank, 2020; Catalan, Pretro & Ponce, 2021). Before the pandemic, statistics from World Bank (2020) indicated that SMEs represent 90 percent of global businesses, provide more than 50 percent of global employment, and contribute 40 percent of national incomes in emerging economies (World Bank, 2020). However, the current situation indicated that the pandemic explicitly negates the role of SMEs in performing their traditional role as observed by others (Zeidy, 2020).

For instance, a study conducted by the International Finance Corporation on the effect of Covid 19 on SMEs productivity indicated that 4,467 business productivity from 132 countries were badly affected, with 70% of SMEs being severely affected when

compared to large business corporations (International Trade Center [ITC], 2020). Similarly, the study indicated that the SMEs' performance especially in Africa witnessed a 75 percent reduction in sales and 54 percent difficulty in assessing raw materials.

## **2.2 Bootstrapping Finance**

Bootstrapping is not a new concept in financial literature, it exists before formal funding institutions, what makes it to be new is the rate at which the concept is put into practice (Hovath, 2019). It is a strategy where entrepreneurial ventures undertake to preserve liquidity by reducing expenses, collecting receivables, delaying credit payments, and joint utilization of resources (Stephens & Iskandaria, 2006). Other strategies worthy of noting include subsidy financing, reducing tax advances, and commercial rent (Block, et al, 2021). Mabonga (2020) argued that bootstrapping is a technique that affects the way enterprises manage their resources as well as their relationship with other stakeholders, especially under economic pressure. Block et. al (2021), Mabonga (2020), Zwane and Nyide (2016) identified the following bootstrapping techniques.

## **2.3 Bootstrapping Techniques and SMEs Performance**

### *2.3.1 Minimization of Accounts Receivable and SMEs Performance*

It is a known fact to most entrepreneurs that businesses on daily bases are conducted on credit sales rather than cash and carry (Mabonga, 2020 ). However, not all debtors are ready to make prompt payments when due and this reduces the liquidity position of the business. In the same way round, if credit sales are not given, stocks of finished products will attract unnecessary stock expenses, which will lead to loss. To save the business from collapsing, an entrepreneur is expected to address this issue by using interest on overdue payments on debtors that do not meet their obligations as prescribed in the credit agreement.

Mabonga (2020) conducted a study using a descriptive survey research design and a questionnaire was distributed to 234 Small and Medium Enterprises in Kenya. The study showed that owner financing methods had a significant positive effect on financial sustainability among the respondents. Similarly, the minimization of accounts receivable had a significant positive effect on financial sustainability. Likewise, joint utilization had a significant positive effect on financial sustainability. Delaying payments had a significant positive effect on financial sustainability while minimization of investment in capital stock had also a

significant positive effect on financial sustainability.

Nurudden (2022) conducted a study on financial bootstrapping and organizational performance in some selected SMEs in Oyo state. The finding of the study using Pearson Product Moment Correlation indicated a strong relationship between delaying payment to suppliers; minimization of account receivable and SMEs performance. Similarly, the result also indicated that ownership financing, joint utilization, delaying payment, and minimization of accounts receivable have a significant influence on SMEs' performance in the study area. Despite all the above-mentioned findings, the result indicated minimization of account receivable provide SMEs with liquidity through fine and charges. Most SMEs charges debtors that failed to make payment when due, this extra collection is considered as another source of income that is internally generated and influences performance.

**H<sub>a1</sub>:** Minimisation of accounts receivable positively influences SMEs performance in Kano State, Nigeria.

### *2.3.2 Joint Utilization of Equipment and Assets and SMEs Performance*

Funding small-scale businesses especially when it involves the use of equipment that is beyond single ownership due to cost or

technical expertise can be obtained through joint ownership. Bootstrapping allows entrepreneurs to take advantage of one another to share equipment with others especially when such equipment cannot be owned single-handedly (Stephens & Iskandsria, 2006 ).

For instance, in Germany, a study conducted by Block, et al (2021) showed a positive and significant relationship between bootstrap financing and private consumption on one hand, and self-employment on the other. The result dictated that the majority of the SMEs that responded to the study (17,046); that enjoy joint utilization of assets do not witness severe conditions during the pandemic, as a positive relationship exists between severity cases and bootstrap financing.

Vanacker, Manigart, Meuleman and Sel (2010) conducted a study on the impact of bootstrap strategies on venture development following a longitudinal approach. The findings of the study indicated that businesses which engage in joint utilization created more value for SMEs that depend on their building. The findings of the studies indicated the positive influence of joint utilization of assets on SMEs' performance, one can deduce that in the absence of funds to build, buy assets or install new equipment, joint utilization serves as a source of funding not only during crisis periods. It should be noted that the strategy if

not well managed may create a vacuum that will course a rift relationship between the firms on who controls what?

**H<sub>a2</sub>**: Joint utilization of equipment and assets positively influences SMEs' performance in Kano State, Nigeria.

### **2.3.3 Delaying Payments to Suppliers and SMEs' Performance**

Another technique in raising funds through bootstrapping method is delaying payment due to suppliers. Credit payment if extended provides additional funds to the business. However, care must be taken so that the entrepreneur's good reputation would not be eroded due to non-payment of obligation as agreed. Payment delays can tarnish the good name and reputation of the business in the eyes of its suppliers (creditors).

Hovarth (2019) citing Ebben (2009) from the reports of the study conducted showed a positive relationship between liquidity ratios and owner-related capital methods. Similarly, the study found a negative relationship between return on sales (ROS)/return on assets (ROA) ratios and payment delays and customer-related techniques. In a different study, Jones and Jayawarna (2010) as cited in Hovarth (2019) found a positive relationship exists between payment-related and joint-utilization methods and both turnover change and sales growth.

Ye (2020) tried to predict if there is a significant negative relationship between bootstrapping and startup ventures in terms of profitability using longitudinal panel data from the Kauffman Firm Survey throughout 2005-2007. The finding of the study showed that bootstrapping approach (owner capital, joint utilization of assets, and delaying payment to suppliers ) is significantly and strongly, but negatively associated with profitability

Contrary to Ye (2020), Muo, Oladimeji, and Okunbadejo (2020) in their study on Financial bootstrapping and small business growth in Lagos metropolis, Nigeria, used a regression analysis and finding indicated that owners-related finance and payment delay to suppliers have no significant influence on SMEs growth in the study area at a 95% confidence level.

Despite mixed reactions from the above findings on the influence of delaying payment to suppliers and SMEs' performance, delaying payment to suppliers increase the cash till of SMEs making funds available for their immediate operations without resorting to external financing and this influences the performance of the firms. However, delaying in payment if not managed well, spoils the SMEs' good reputations thereby negatively affecting the goodwill of the business, which leads to poor performance.

**H<sub>3</sub>**: Delay in Payments to Suppliers positively influences SMEs' performance in Kano State, Nigeria.

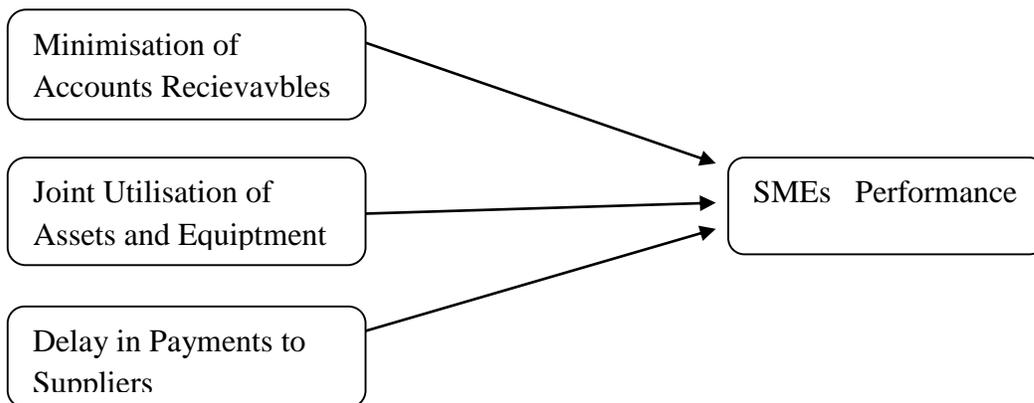
#### 2.4 Theoretical Perspective

The underpinning theory of this study is a resource-based theory which believes that organizations that have and can rapidly mobilize more strategic resources are likely to develop a sustainable competitive advantage and generate above-normal returns compared to their resource-constrained peers (Abdulrahman, 2016 citing Barney, 1991). The theory postulates that SMEs using owner capital, asset, equipment, and inventory will strategically be better up during economic upheavals and compete favorably when compared to others that do not strategically position themselves. During the period of Covid 19, SMEs with owner capital, as a bootstrapping strategy does not witnesses

capital shortage due to bank closure. Similarly, those having equipment and asset found it easy to manage their operations at the same time inviting other SMEs to jointly use the same equipment for their operation, giving the former a competitive advantage during the said period.

#### 2.5 Conceptual Framework

The study is anchored on the presumption that SMEs that engaged in bootstrapping techniques reap a fruitful result in terms of performance during the Covid-19 pandemic. The framework indicates bootstrapping strategies that are expressed in the form of minimisation of accounts receivable, joint utilisation of assets and equipment, and delay in payments to suppliers (Block, 2021; Horvath, 2018; ITC, 2020) influences SMEs' performance ( Oyewole et al., 2020)



**Figure 1: Conceptual framework**

### 3.0 Research Methodology

The philosophy of the study is built on the positivist approach and the research design is descriptive, (looking for the causal relationship if any between bootstrap financing and SMEs performance) using empirical evidence. The population of the study includes all the registered 2441 Small & Medium Enterprises (SMEs) in Kano State according to the National Bureau of Statistics (2021). Using the Slovincs formula calculator the study selected 342 respondents as the sample size with an acceptable margin of 0.05. Similarly, the study used a simple random probability sampling technique to give each unit an equal chance of representation from the population, this is in line with the study conducted by Abdulrahman (2021). Structured questionnaires are used as a research instrument using four Likert's rating scales and distributed to the owners/managers of SMEs as the study respondents used to answer the research hypotheses.

To ensure the accuracy and validity of the study's instrument, the questionnaire is tested using validity and reliability measures. In measuring the validity, the study employs content validity, and the measure indicated that the instrument covers all aspects of the topic that it is designed to measure. The study also employs the test and retest method to

ensure the reliability of the instrument over time, this is in line with Mubaraka (2013).

#### Diagnostic Test

To check if multicollinearity and linearity exist, the result from the preliminary analysis indicated that the data were normally distributed with Kurtosis and Skewness having values closer to 0 and greater than 0.00001 as suggested by Field (2015). Similarly, the Value of sig. deviation from linearity is less than (0.05) which is an indication linearity does not exist among the study variables as suggested by Mubaraka (2013)

#### Statistical Model

$$Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where;

$\beta$  = The slop of the regression line

$X_1$  = MAR = Minimisation of Account Receivable

$X_2$  = JUE = Joint Utilisation of Equipment and Assets

$X_3$  = DPS = Delaying Payment to Suppliers

$\epsilon$  = Error term

$Y$  = SMEs' Performance

#### Measurement of the Study Variables

In measuring the study variables, for instance, bootstrapping finances as the independent variable is measured based on the following constructs; joint utilization of assets, minimization of account receivables, and delaying payment to suppliers as found in Block, et. al (2021), Mabonga (2020) and Zwane and Nyide (2016) with five, six and

seven items respectively using four Likert rating scale. Similarly, SMEs' performance is measured by productivity (output), sales, profit, and employment based on the studies

conducted by Abdulrahaman (2021), Amuda (2020); Zeidy (2020) using four Likert rating scales with six items each.

#### 4.0 Results and Discussions

##### Descriptive of Study Variables

**Table 1: Response Rate**

	Number	percentage
Number of Questionnaires Returned	235	68.0
Number of Questionnaires unreturned	77	32.0
<b>Total</b>	<b>342</b>	<b>100.0</b>

**Source: Field Survey, 2022**

Table 1 showed the distribution of response rate of the questionnaire distributed. A total of 235 questionnaires from 342 sampled respondents returned their questionnaires well-filled, contributing to 68.0%. However, 77 (11 questionnaires were not returned and 66 were

not duly filled) as they failed to meet the study requirements. It should be noted a response rate of 68.0% is sufficient to provide statistical analysis for reporting and generalization as argued by Kivuti (2013) citing Mugenda and Mugenda (1999).

**Descriptive Statistics of the Study Respondents**

**Table 2 Descriptive Statistics of the Study Respondents**

<b>Variables</b>	<b>Number of Response</b>	<b>Percentage</b>
<b>Gender</b>		
Male	220	94.0
Female	15	6.0
<b>Total</b>	<b>235</b>	<b>100.0</b>
<b>Marital Status</b>		
Married	200	85.0
Single	35	15.0
<b>Total</b>	<b>235</b>	<b>100.0</b>
<b>Number of Years in Business</b>		
1 – 5	2	1.0
6 – 10	20	9.0
11 – 15	180	77.0
16 <	33	13.0
<b>Total</b>	<b>235</b>	<b>100.0</b>
<b>Educational Qualification</b>		
Primary	20	8.5
Secondary	30	12.7
NCE/Diploma	35	14.9
HND/Degree	110	47.0
Postgraduate	40	17.0
<b>Total</b>	<b>235</b>	<b>100.0</b>
<b>Capital Base</b>		
Less than 50 million	10	4.0
50 million – 100million	140	60.0
101million – 150million	60	26.0
151million and Above	25	10.0
<b>Total</b>	<b>235</b>	<b>100.0</b>
<b>Type of the Business</b>		
Production	130	55.0
Service	70	30.0
Mercnadising	35	15.0
<b>Total</b>	<b>235</b>	<b>100.0</b>

The respondents' profiles indicated ( Table 2) that the majority of the respondents are male (220, 94%) and married (200, 85%). Similarly, majority of the respondents have business experience between 11 – 15 years (180, 77%). Concerning the educational level of the respondents, 47% equivalent to 110

have a degree with very few attending primary education (8.5%). Furthermore, majority of the respondents have a capital base between 50 million and 100 million (140, 61% ), while only 4% have less than N50 million as a capital base. Table 2 further indicated that the majority of the respondents (130:55%) are in

the production business, with 15% in merchandising.

variables. Table 1 below shows the correlation coefficients for all the variables of the study.

**4.1 Results of Pearson Correlation**

A Pearson correlation analysis was used to establish the relationships between the

**Table 3: Pearson Correlations**

Constructs	MAR	JUE	DPS	SMEP
MAR	1			
JUE	0.876**	1		
DPS	0.759*	-0.498**	1	
SMEP	0.718**	0.551**	-0.549	1

Source: SPSS Output generated from primary data, 2022

Table 3 indicated a positive correlation between MAR and SMEs performance as results demonstrated a moderate correlate between MAR and SMEs Performance at ( $r = 0.718, p < .01$ ). Similarly, a positive correlation

between JUE and SMEP results demonstrated a moderate correlation ( $r = 0.551, p < .01$ ). The result also reveals a negative correlation between DPS and SMEs Performance at .01 level ( $r = -0.549, p < .01$ ).

4.2 Multiple Regression Analysis

Table 4 Multiple Regression Analysis

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients		Sig. Value
	Beta	Std. Error	Beta	T	
(Constant)	100.894	1.453		69.434	.000*
MAR	.141	.017	.183	8.283	.000*
JUE	.619	.067	.221	9.202	.000*
DPS	2.536	.060	1.061	42.172	.000*
Model		1			
R		.939			
R <sup>2</sup>		.883			
Adj R <sup>2</sup>		.881			
Std. Error of the Estimate		2.21451			
R <sup>2</sup> Change		.008			
F Change		.423			
df1		243			
Sig. F Change		.863			
Std. Error of the Estimate		2.21451			
Sig.		.000			

- At a 95% confidence level

Source: SPSS Output generated from primary data, 2022

a. *Dependent Variable: SMEs Performance*

Based on Table 4 above, the following multiple linear regression equation is formed:

$$Y = 100.894 + MAR(.0141) + JUE(0.619) + DPS(2.536) + \epsilon$$

In trying to predict the predictive power of the independent variable over the dependent variable, Table 4 indicated that the coefficient of regression  $r$  .939 showed the strength of the relationship between bootstrapping strategies and SMEs performance. By the same token, R-squared statistics measure the level of the

predictive power of promotional strategies over retail sales performance. The measurements indicated that 88.3% of SMEs' performance was predicted by bootstrapping strategies, while 11.7% remained unimpacted. Table 4 further showed the level of variation between the independent and the dependent variables; the adjusted R Square, which is 88.1%, displayed the extent to which the two

variables vary. Similarly in Table 4,  $F = 456.461$ ;  $p = 0.000 < 0.01$ . Thus, the fitness of the model is confirmed. The overall regression model with the three bootstrapping strategies (minimisation of accounts receivable, joint utilization of equipment and assets and delay in payment to suppliers) has worked well in describing the variation in small and medium enterprises' performance at a 95% confidence level.

### 4.3 Test of Hypotheses

The study makes three prepositions to ascertain the relationship between bootstrapping techniques and SMEs' performance. Using multiple regression analysis, the study found the following results

#### ***H<sub>a1</sub>: Minimisation of Account Receivable Positively Influences SME's Performance***

In trying to test, the above proposition, the result from Table 4 indicated that the regression coefficient of MAR is  $\beta = 0.141$   $\infty = 0.05$  and the sig value = 0.000. This shows that alpha is ( $\infty = 0.05$ ) statistically large and significant enough when compared to the sig value (sig value = 0.000) to accept the alternate hypothesis. With this result, the minimisation of account receivable positively influences SME performance. The result, however, is in line with the study findings of Mabonga (2020) and Nurudden(2022) stressing the influence of the minimisation of

accounts receivable on SMEs' performance. Managers should note that the minimisation of accounts receivable has cost implications, such as insurance, electricity, security, and spoilage which will be accrued over time. Similarly, situations, where the purchasing power of consumers is negatively affected by economic vagaries, it should also be taken into consideration.

#### ***H<sub>a2</sub>: Joint utilization of equipment and assets positively influences SMEs' performance***

To test hypothesis two, Table 4 provided multiple regression coefficients of joint utilisation with  $\beta=0.619$ ,  $\infty = 0.05$ , and sig value =0.000. The result shows that alpha is ( $\infty = 0.05$ ) statistically large and significant enough when compared to the sig value (sig value = 0.000) to accept the alternate hypothesis. With this result, joint utilization of equipment and assets positively influences SMEs' performance. This finding supported the earlier study result conducted by Block et al (2021), however, does not concur with what is obtainable in Vanacker et al (2009). Despite the above findings, the strategy is having some bottlenecks including difficulty in reaching agreement, control, and responsibility and making it practically difficult for most SMEs.

***H<sub>a3</sub>: Delay in Payments to suppliers positively influences SMEs' performance***

Furthermore, to test if delay in payments positively influences SMEs' performance, Table 4 provided the following coefficients  $\beta = 2.536$ ,  $\alpha = 0.05$ , and sig value = 0.000. The result shows that alpha is ( $\alpha = 0.05$ ) statistically large and significant enough when compared to the sig value (sig value = 0.000) to accept the alternate hypothesis. With this result, delay payments to suppliers positively influence SMEs' performance. This result supported the earlier finding of the study conducted by Ye (2020) but disagreed Muo, Oladimeji and Okunbadejo (2020) which stressed that delaying payments to suppliers does not influence SMEs' performance. It should be noted that it is damaging to businesses' good reputations to forfeit obligations such as the payment of a loan for whatever reason as it affects the goodwill of the business thus eroding the performance of the business.

***4.5 Implication for Practice***

The study provides SMEs with useful insight into how to overcome the consequences of lack of funding during Covid 19 pandemic to foster their productivity. From the evidence on the samples SMEs, bootstrapping techniques provide a soft landing in cushioning the illiquidity and insolvency problems deterring

productivity during the said period. The strategies are interest-free and available at the doorstep of SMEs. Similarly, the strategies do not call for much paperwork and are free from all bureaucratic bottlenecks. These and others gave SMEs who adopt the strategies the upper hand when compared to others that failed to exploit this opportunity.

***4.6 Implication for Theory***

The study proved the worthiness of resource-based theory in fostering SMEs' productivity. The theory emphasized that organizations having strategic resources stand a better chance to enjoy a competitive advantage over those that do not have them. From the findings of the study, most of the SMEs that use delay in payment to suppliers, trade discounts, as well as joint utilization of equipment and assets, perform better in terms of productivity during the pandemic when compared to those SMEs that do not adopt the strategy.

***5.0 Summary, Conclusion, and Recommendations***

The summary finding of the study indicated that the minimisation of account receivable (MAR) statistically influences SMEs' performance during the Covid-19 pandemic in the study area and this lends support to the study's alternate hypothesis (H<sub>a1</sub>). Similarly, Joint utilization of assets significantly influences SMEs performance in the study

area during Covid 19 pandemic, the study therefore supported the study hypothesis (Ha2). Furthermore, the study finding indicated that delay in payment to suppliers (DPS) statistically and significantly influences SMEs' performance during Covid 19 pandemic in the study area, with this result the study's alternate hypothesis (Ha3) was accepted.

### **Recommendations**

The study recommends the followings:

1. SMEs should find ways to minimize their account receivable as a strategy to ensure liquidity which could be used to finance their operations especially when facing turbulent economic situations.
2. SMEs should adopt joint utilisation of assets and equipment as it saves cost and time from procurement of new assets especially when pandemic or other economic vagaries cannot allow them to purchase new equipment or assets.
3. The study also recommends delaying payment to suppliers should equally be used by SMEs as a strategy to maintain liquidity especially when the economy is affected by financial crunch.

### **Limitations and Suggestions for Future Studies**

Despite the research being duly conducted and the results conforming with the findings of previous studies, the study has some limitations. The study draws its sample units from SMEs in Kano, which which makes it difficult to generalize the influence of bootstrapping on SMEs' performance in Nigeria. The study, therefore, suggests that further studies should go beyond this study area. Similarly, future studies should investigate the moderating effects of government intervention on the relationship between bootstrapping and SMEs performance during the Covid-19 pandemic.

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## Determinants of Profitability of Selected Quoted Consumer Firms in the Nigerian Exchange Group

By

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### Abstract

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*Factors accounting for the nature of profitability of some quoted firms in the consumer sector of Nigerian Exchange Group are not known due to the recent paucity of researches in the sector. Therefore, this research is motivated by inquisitiveness triggered by agency theory problem to find out whether the managements are exercising due diligence given the firm specific variables under their control. The study focused on examining factors that affect profitability of selected quoted companies in the Nigerian Exchange Group's consumer sector. The population comprised 20 quoted consumer firms from which a sample size of 13 firms was selected using a purposive sampling technique. Data of ten years (2012-2021) based on information taken from the released yearly financial accounts of the firms was used. The data were described using descriptive statistics and the variables were also tested for correlation using Pearson correlation analysis. Panel regression was used to estimate the model. Hausman test was conducted and it was found that random effect model was more appropriate. The result revealed that: financial leverage has a positive but insignificant effect; firm growth, a negative and significant effect; and firm size, a considerable improvement effect, all on profitability. Therefore, it is recommended that the management of the firms should invest wisely while the board of directors should monitor expenses. Secondly, the firms' management should consolidate on their respective size so as to enjoy more economies of scale*

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**Keywords:** Profitability, Financial Leverage, Firm Size, Firm Growth

### 1.0 Introduction

Profitability is the tendency to make profit by a business venture. It can be said to be the ability of firms to make return in excess of cost which all stakeholders thrive to achieve. There are some factors responsible for the nature of firm's profitability. The factors can include firm-specific characteristics and macro-economic variables. This work focuses on the firm-specific attributes (financial leverage, firm growth and firm size) as determinants of

profitability. This is because the characteristics can be influenced by the management of the firms who are suspected by stakeholders to be using funds/profit to satisfy their personal needs at the detriment of the business as postulated in the agency theory.

Premised on the agency theory, this research was first motivated by the inquisitiveness to find out whether the managements are exercising due diligence given the firm specific

variables under their control to determine the nature of profitability of quoted consumer firms in Nigeria. Secondly, because there is a paucity of research in the said quoted sector in Nigeria, see for example the works of Muhammad et al. (2021), Eisa (2018), Fuertes-Callen and Cuellar-Fernande (2019). These studies were limited only to banks in foreign countries and as a result, this study bridges the gap by examining the determinants of profitability among quoted consumer businesses in the Nigeria Exchange Group.

Three null hypotheses are formulated as:

**H<sub>01</sub>:** Financial leverage has no significant effect on profitability of quoted consumer firms in Nigeria.

**H<sub>02</sub>:** Firm growth has no discernible impact on profitability of quoted consumer firms in Nigeria.

**H<sub>03</sub>:** Firm size has no discernible impact on profitability of quoted consumer firms in Nigeria.

The study consists of six sub headings: this being the first section, the introduction, followed by literature review then the methodology of the study, results and discussion of findings, conclusion and recommendations and lastly, suggestion for further studies section.

## **2.0 Literature Review**

This section presents the conceptual, empirical and theoretical review of the study's variables (profitability, financial leverage, firm growth and firm size).

## **2.1 Conceptual Review**

This subsection reviews concepts of profitability, financial leverage, firm growth and firm size respectively. The capacity to turn a profit from all of a company's business operations is known as profitability in organizations (Saptarshi & Tasnima, 2018). According to Paul and Agbo (2014), in order to be profitable, a company must generate returns on its assets that have a positive net present value. In a similar vein, Pouraghaljan and Milad (2012) defined profitability as the capacity to produce income in excess of cost of generating such revenue. Higher profitability ratios indicate better performance of banks (Mangla & Rehman, 2010; Ajlouni & Omari, 2013). Profitability is a relative term, several variables such as return on assets, return on equity, net profit margin and gross profit margin etc. can be used as proxies for profitability. Return on assets is adopted in this study because it is a ratio that measures how efficient a management is in utilizing its assets. In other words, it tells how much naira/kobo is generated for every naira spent in assets. Net income divided by total assets is how ROA is calculated. ROA is a reliable and popular metric for evaluating efficiency and profitability (Wasiuzzaman & Gunasegavan, 2013).

The concept of leverage is a significant piece of financial management as it helps in setting the system for financial decision of an association. It additionally helps in choosing

the ideal extent of obligation and equity in capital structure, so the expense of capital can be decreased (Dhagat, 2012). Financial leverage implies the measure of debt financing in an organization's capital structure. Leverage ratios are determined to measure the financial risk and the organization's capacity of utilizing obligation furthering investors' potential benefit (Pandey, 2014). Leverage defines capital structure of the firms. It is one of the most challenging decisions for the management of the organization to choose the mixture of debt and equity.

Furthermore, financial leverage saves cost and reduces the risk of the owners. However, it becomes costly when firms are unable to use it efficiently. Firms have to pay financial charges on the leverage. If firms fail to apply leverage effectively, they have to suffer from cost of interest expenses on the amount of leverage which is to be repaid. Profitable firms prefer to use leverage because it reduces the risk of owner and more cost saving for the shareholders of such firms. According to Meyers and Majluf (1984), financial leverage influences company's profitability, which directly affects managerial performance (Hashini & Madumali, 2018). Debt to capital, debt to equity, long debt to asset, short debt to assets and total debt to assets ratios among others are prominent ratios used for measuring financial leverage. This study adopts total liability to total assets ratio as proxy for financial leverage. This is because it takes debt

and other liabilities in financing the assets of the firm. It is calculated by dividing total liabilities by total assets.

However, firm's common assumption behind using growth as a metric for measuring an organization's success is that it is a necessary step towards achieving sustained competitive advantages and profitability (Markman, 2002). Additionally, larger businesses are more likely to survive (Aldrich, 1986), and they could profit from size-related economies of scale. The opposing viewpoint holds that rapidly expanding businesses may have problems related to expansion, which might impair profitability and perhaps cause financial instability. Based on this, data show that new enterprises become more successful when they join markets rapidly and on a big scale, MacMillan and Day (1987) hypothesized that fast growth may result in an increased profitability. However, Hoy (1992) came to the conclusion that the pursuit of high growth and business profitability may have only weak or even negative relationships. Delmar et al. (2003) emphasized the fact that company's development is not constant and can fluctuate significantly over time. Growth in the business sector is anticipated to be beneficial.

Firm size refers to the volume and diversity of production capacity and potential that a company has, or the volume and variety of services that a company may offer at the same time to its clients as a result of the phenomena of economies of scale (Shaheen et al., 2012).

The size of a company is crucial in today's world since larger companies can produce goods at considerably cheaper costs than smaller ones. Additionally, business size is becoming a common factor in accounting for organizational profitability (Abeyrathna & Priyadarshana, 2019). Firm size is anticipated to have a favorable impact from an a priori perspective.

## **2.2 Empirical Studies**

Several empirical studies were carried out worldwide. Brief reviews of similar study are presented below:

Muhammad et al. (2021) investigated the factors that affect profitability taking a case study of Pakistani commercial banks. A sample size of twenty-five banks was purposively selected. Data were collected within the span of ten years (2009-2018). Panel regression was used to estimate the model and it was found that financial leverage has a significant and negative effect on return on assets.

Bui and Nguyen (2020) investigated the factors impacting a company's profitability in the Vietnamese oil and gas sector; a total of 203 samples were taken from 29 businesses listed on the Vietnam Stock Exchange over a six-year period from 2012 to 2018. The study's results showed that financial leverage has a negative influence on ROA.

Eisa (2018) studied bank specific and macro-economic using a panel data approach to the factors affecting the profitability of Indian

commercial banks. A sample of 69 banks was used within the span of ten years (2008 – 2017) and panel regression was used to estimate the data. It was found that financial leverage has a positive and significant effect on return on assets.

Margaretha and Supartika (2016) examined the factors influencing the profitability of SMEs listed on the Indonesian stock market. The population of the study was 22 listed firms and data were collected for six years. Multiple regression was used to estimate the data and the analysis located that firm growth has a significant and negative effect on profitability. Fuertes-Callen and Cuellar-Fernande(2019) used a large firm-level data set made up of manufacturing enterprises in Spain between the pre-crisis (2000-2007) and the crisis to study the relationships between growth and profitability in an economic crisis (2008–2014) period, static and dynamic panel data models were used for estimation. Growth was discovered to have a negative and substantial effect on profitability.

Muhammad et al. (2021) investigated the profitability factors taking a case study of Pakistani commercial banks. A size of a sample of twenty-five banks was purposively selected. Data were collected for ten years (2009-2018). Panel regression was used to estimate the model and it was found that company size has a big negative impact on return on assets.

Margaretha and Supartika (2016) looked at

variables influencing the profitability of SMEs listed on the Indonesian stock exchange. The population of the study was twenty-two listed firms and study data were collected for six years. Multiple regression was also used to estimate the data. It was found that firm size has a significant and negative effect on profitability.

Eisa's (2018) study using panel data examined the macroeconomic and bank-specific factors that affect the profitability of Indian commercial banks. A sample of 69 banks was used within the time frame of 10 years (2008 – 2017) and panel regression was used to estimate the data. It was discovered that firm size has a strong and beneficial impact on return on assets.

### 2.3 Theoretical Framework

#### Agency Theory

This theory was presented by Jensen and Meckling in 1976. They asserted that agency expenses brought on by the separation of ownership and control dictate dividend policy. According to the hypothesis, managers of corporations may prefer to pursue dividend policies that cater for their own personal interests and perks rather than those that maximize shareholder value. Given this reality, shareholders will want to create tactics for regulating managers' actions (Jensen & Meckling, 1976).

### 3.0 Methodology

The ex post facto research design was used in the study. The study's population cuts across

20 quoted firms in the consumer goods sector in Nigerian Stock Exchange Market from 2012-2021 that is, 10 years. The consumer sector was chosen because it is deemed the quoted sector with the largest number of firms in non-financial sector. The study equally adopted purposive/criterion sampling method based on a firm that recorded profit in its financial statement for at least seven years. This is to allow for substantial collection of recent data. The sampled firms are 13 (Guinness, Honeywell, International Brewery, Nascon, Nestle, Nigerian Brewery, Nigerian Enamelware, PZ Cussons Nigeria, Unilever, Vitafoam, Dangote Sugar, Cadbury and, flourmills Plc.) Stata 13.0 statistical software was used for the analysis.

Testing for the best model (fixed effect/random effect) to explore the The Hausman test, which is based on the null hypothesis that the random effect model is preferable to the fixed effect model, was performed to determine if there was a cause-and-effect link between the dependent and independent variables. While the estimate of the random effect panel regression assumes a connection between the error term and explanatory factors, estimation of the fixed effect panel regression was based on the assumption that there was none. The model of this study is as follows:

$$\text{PROF} = a + \beta \text{LEV}_{it} + \beta \text{GRW}_{it} + \beta \text{SI}_{it} + \mu$$

Where:

PROF = Profitability (measured as return on assets)

a = Constant term

$\beta$  = Coefficient

LEV = financial leverage (total liability to total assets)

GRW= firm growth (sales-sales<sub>t-1</sub>/ sales<sub>t-1</sub>)

SIZE = firm size (natural log of total assets).

i = Cross-sectional dimension

t = time series dimension

$\mu$  = Error term

#### 4.0 Results and Discussions

**Table 1: Summary statistics**

	Mean	Median	Std. Dev.	max	min	N
ROA	.236	.045	0.455	342	-.006	130
LEV	.234	.231	0.167	.605	.322	130
GROWTH	.253	.015	1.355	8.638	-.622	130
SIZE	9.682	9.752	6.628	24.317	.012	130

Source: Researchers' Computation, 2022

Table 1 showed that the mean value of return on assets (ROA) is .23 and the median is 0.45 among the sampled firms, this shows the absence of outliers. The maximum and minimum value of ROA is found to be .342 and -.006 respectively, this means that firms that are making profit and those making loss are included in the sample. The standard deviation from the mean is 0.455 and there are 130 observations.

The mean value of financial leverage is .23 and the median is .23 among the sampled firms, this shows the absence of outliers. The maximum and minimum value of financial leverage is found to be .605 and .322 respectively and this means all the firms used

The statistical results such as the descriptive statistics, correlation analysis, multi-collinearity test and the panel regression together with their discussions are presented in this section as follows.

#### 4.1 Descriptive Statistics

In this section, we looked at descriptive statistics for the relevant dependent and explanatory factors. Each variable's mean, median, maximum, and lowest values are investigated. The study's descriptive data are shown in Table 1 below.

in the study are levered. The standard deviation from the mean is 0.16 and there are 130 observations.

That mean value of firm growth is .25 and the median is 0.015 among the sampled firms, this shows the absence of outliers. The maximum and minimum value of firm growth is found to be 8.63 and -.622 respectively; this means that while some firms are growing, some are not. The standard deviation from the mean is 1.35 and there are 130 observations. It was also discovered that the mean value of firm size is 9.68 and the median is 9.75 among the sampled firms and this shows the absence of outliers. The minimum and maximum value of firm size is found to be .012 and 24.31 respectively; this

means that while some are large, some are small. The standard deviation from the mean is 6.62 and there are 130 observations from Shapiro Wilk normality p- values which are all below 0.05. This means the data are not normally distributed therefore; they are logged to make it approximately normal.

#### 4.2 Correlation

Results and the Pearson correlation coefficient (correlation matrix) of the one hundred and thirty (130) observations are presented in the below table.

**Table 2: Matrix of correlations**

Variables	(1)	(2)	(3)	(4)
	ROA	LEV	GRWTH	SIZE
(1) ROA	1.000			
(2) LEV	0.477	1.000		
(3) GROWTH	-0.068	0.166	1.000	
(4) SIZE	0.442	0.896	0.128	1.000

**Source: Researchers' Computation, 2022**

It can be observed from Table 2 that leverage is being moderately associated with return on assets (LEV/ROA= -0.4). The growth is negatively and weakly associated with return on assets (GROWTH/ROA= -0.06) but positively and weakly associated with leverage (GROWTH/LEV = 0.16). Size is negatively and moderately associated with return on assets (SIZE/ROA = 0.44), strong and positive

with leverage (SIZE/LEV=0.8) and moderately positive with growth (SIZE/GROWTH=0.12). The correlation coefficients showed that there is absence of multicollinearity among the variables.

#### 4.3 Multicollinearity

The multicollinearity result for the respective variables vis a vis variance inflation factors (VIF) are presented in Table 3.

**Table 3: Multicollinearity**

VIF	1/VIF
1.410	0.709
1.390	0.717
1.060	0.942
MEAN VIF	1.290

**Source: Researchers' Computation, 2022**

The VIF values of the variables which are all below the threshold of 10 indicated the

absence of multicollinearity. Therefore, the whole variables can be used for statistical inference

The test for normality for each variable is presented in Table 4 with the respective p – values. The test was carried out using Shapiro – Wilk test.

**4.4 Normality**

**Table 4: Normality Test**

Variable	Obs	W	V	Z	Prob>z
ROA	130	0.563	44.953	8.563	0.000
LEV	130	0.945	5.664	3.902	0.000
GROWTH	130	0.243	77.964	9.802	0.000
SIZE	130	0.949	5.204	3.711	0.000

Source: Researchers’ Computation, 2022

**4.5 Panel regression Results**

The study used Panel regression to examine the cause-and-effect connections between the dependent and independent variables as well as

to test the proposed hypotheses. The outcomes of the panel data regression obtained is presented and discussed in Table 5.

**Table 5: Panel Regression  
Fixed Effect Random Effect**

	(1) ROA	(2) ROA
LEV	.066 (.097)	.047 (.081)
GROWTH	-.264*** (.075)	-.233*** (.065)
SIZE	.05*** (.002)	.051*** (.002)
_cons	.044* (.023)	.043** (.02)
Observations	130	130
Wald Ch2		1.462 ***
F- stats	296.05***	.
Pseudo R <sup>2</sup>		

Source: Researchers’ Computation, 2022

Standard errors are in parentheses

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Note: \*\*\*, \*\*, \* implies statistical significance at 1%, 5% and 10% significant levels respectively and ( ) are standard errors.

**4.5.1 Hausman (1978) specification test**

The study used Hausman test to determine whether to use a fixed effect or random effect model. The null hypothesis of the test is that

the random effect model outperforms the fixed effect model. The test is presented in Table 6.

**Table 6: Hausman Test**

	<b>Coef.</b>
Chi-square test value	1.608
P-value	.658

**Source: Researchers' Computation, 2022**

Taking a look at the Hausman test's p-value at (0.658), the p-value strongly suggests that the null hypothesis cannot be rejected; therefore, the alternative hypothesis is rejected at 0.65% importance level. This suggests that while formulating our conclusions and giving advice, we should use the random effect panel regression findings. The random effect model is therefore, used for the analysis.

The Wald chi square statistic 1.462(0.00) for random effect model shows that the model considers that it is statistically significant at 1% and it is appropriate for inference. Financial leverage (LEV) random effect=0.47 as a factor that is independent of profitability appears to have both a large and beneficial impact on ROA at more than 5% level. This therefore, means the null hypothesis cannot be rejected i.e. hypothesis 1 (H<sub>01</sub>: financial leverage has no significant effect on profitability). The coefficient indicates that for every 1% increase in financial leverage, return on assets is expected to increase by 0.47%. This implies financial leverage is not an important determinant of profitability.

Contrary to a priori expectation, firm growth (GRW) random effect = -0.233 (0.01) as an independent variable to profitability (ROA) appears to have a negative and significant influence on ROA at 5% level. This implies that hypothesis 2 should be rejected (H<sub>02</sub>: Firm growth has no significant effect on profitability). The coefficient indicates that for every 1% increase in firm growth, profitability is expected to decrease by 23%. This implies that the firms are either experiencing a decline in sales revenue due to rising inflation or increase in operating expenses. This finding is in conformity with that of Fuertes-Callen and Cuellar-Fernande (2019)

Firm size (SIZE) Random effect=0.51(0.000) as an independent factor of profitability (ROA) appears to have a large and favorable impact influence on ROA at 5% level. This implies that we should reject hypothesis 3 (H<sub>03</sub>: Firm size has no significant effect on profitability). The coefficient indicates that for every 1% increase in firm size, profitability is expected to increase by 51%. This implies the study population constitutes of larger firms and because compared to smaller businesses, giant

corporations can produce goods at substantially reduced costs, their profitability increases (Abeyrathna & Priyadarshana, 2019). The finding is in line with that of Eisa (2018).

**4.6 Multicollinearity**

This is a test carried out to ensure that one or

**Table 7: Multicollinearity**

VIF	1/VIF
Lev 1.410	0.709
Growth 1.390	0.717
Size 1.060	0.942
Mean	1.290

Source: Researchers' Computation, 2022

The VIF values of the variables which are all below the threshold of 10, indicated the absence of multicollinearity. Therefore, the whole variables can be used for statistical inferences.

**Table 8: Heteroskedasticity**

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of ROA

chi2 (1) = 154.05

Prob> chi2 = 0.0000

Source: Researchers' Computation, 2022

The probability value 1% suggests that there is no uneven variance present in the model. Therefore, the probabilities used to make inferences about the level of significance are reliable and valid.

**5.0 Conclusion and Recommendations**

This study examined the determinants of profitability of quoted consumer firms in Nigeria. It was found that financial leverage is not a significant determinant. This means

more independent variables do not correlate to each other or one another in order not to break the assumption of linear dependence among the explanatory variables in multiple regressions. The test is shown in Table 7.

**4.7 Heteroskedasticity**

This test is carried out to test constant variance of assumption of ordinary least squares and it is presented in Table 8.

that leverage is not a major determining factor of profitability and cannot be used for statistical inference.

Firm growth and size are significant determinants of profitability. Furthermore, firm growth has a significant and negative effect on profitability. It can then be concluded that the quoted consumer firms are in the pursuit of high growth which has necessitated a negative effect on profitability (Hoy, 1992). The management of the firms

should invest wisely and the board of directors should monitor expenses.

On the other hand, firm size has a significant and positive effect on profitability. This is because most of the firms are large firms. Compared to smaller companies, large manufacturers can produce goods at significantly reduced costs (Abeyrathna & Priyadarshana, 2019). The firms' management should consolidate their size so as to enjoy more economies of scale.

## **6.0 Suggestion for Further Studies**

As earlier stated, this study evaluated the influences of firm growth on profitability of quoted consumer firms in Nigeria. It was found that firm growth has a substantial negative effect on profitability. The reason for the negative effect should further be investigated by introducing operating expenses as independent variables. The expenses are introduced to find out whether the management is actually using funds/profit to invest for further growth as a cover up for unnecessary exorbitant expenses for personal aggrandizement which can further validate the agency theory argument if established.

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## Determinants of Dividend Policy of Selected Quoted Health Sector Firms in Nigeria

By

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### Abstract

*This study investigated the determinants of policy of dividend of quoted health sector firm in the Nigerian Exchange Group. Data of ten years (2012-2021) were collected. The population of the study cuts across 10 firms. Purposive sampling method was employed to select a sample of three firms. The data were gathered from the listed companies' published annual financial reports. The facts were described utilizing description from statistics and hypotheses were tested on whether the variables correlate using Pearson correlation analysis. Panel regression was used. It is discovered that return on assets, financial leverage, tax and firm size all are significant determinants of dividend policy. It is recommended that among others that the firms' management should continue improving on their size by investing more on projects/assets with a positive net present value to expand operations.*

**Keywords:** Dividend Policy, Previous Dividend, Profitability, Financial Leverage, Firm Growth

### 1.0 Introduction

Dividend is a price that a company pays to investors for the capital invested by them in the company. The choice of how much to retain or disburse from earnings in form of a dividend to stakeholders is one of the paramount financial decisions managers are expected to make and it is referred to as dividend policy. To meet dividend obligations, firms are faced with several variables (previous dividend, return on asset, financial leverage, firm growth, tax, firm age, and firm size, among others) which determine how dividend pays. These variables are chosen for this study because

they are firm specific characteristics. Dividend payout is among the measure of the company's dividend policy; it denotes the proportion of earnings a firm is willing to give out to shareholders as dividends.

It is important to briefly understand the signaling theory proposition. The proponent of signaling theory believed that cash dividend-paying firms use it (dividend payment) as a means of diffusing information asymmetry between the firm and financiers. Payment of dividends is received as positive news and it is believed the firm value reacts favorably. It also

signals that the firm's financial performance is favorable.

This research is motivated from two fronts: first, dividend policy is based on board of directors' decision on whether or not to pay and the amount and time the dividend is to be paid; the quoted Nigerian firms in the health sector are not exception. The quoted firms do pay and some other times, they don't pay dividend and the reasons are yet to be scientifically determined.

Secondly, there is a dearth of recent scientific evidence to explain the nature of payment. This is because the several studies were carried out across the globe, within different domain, time and variables to ascertain the results of various determinants on dividend policy; see for example, Kashif (2021), Aulia and Alfarisi (2019), Ofori (2018), and Ahmad et al. (2018). These studies yielded mixed results and were mostly carried out not on firms quoted in Nigerian health sector. Consequently, this study examines why dividend is being paid or not in the quoted firms in the Nigeria health sector. In the context of the Nigerian health sector, the following variables can be linked as determinants of dividend policy.

Previous dividends by the selected healthcare firms can influence their future dividend policy. If a company has a history of consistently paying dividends, it may continue doing so in the future following

the principle of dividend continuity. The profitability of healthcare firms measured by return on assets can impact on their dividend policy. Firms with higher returns on assets may be more inclined to distribute a portion of their profits as dividends to shareholders.

The level of financial leverage, which represents the use of debt in the capital structure can also affect dividend policy in the healthcare sector. Companies with high financial leverage may prioritize debt repayment over dividend payments, leading to lower dividend payouts. The size of healthcare firms can influence their dividend policy. Larger firms may have greater financial resources and stability, allowing them to distribute higher dividends to shareholders compared to smaller firms. Furthermore, growth prospects of healthcare firms can impact their dividend policy. Companies experiencing rapid growth may reinvest their earnings into expansion and new projects, resulting in lower dividend payouts. However, more mature firms with limited growth opportunities may distribute a larger portion of their profits as dividends. Also, tax environment in Nigeria can influence the dividend policy of healthcare firms because high tax rates may reduce the amount available for dividend distribution, as companies may need to allocate a significant portion of their earnings for tax

payments. The age of healthcare firms, referring to the number of years since incorporation, can affect their dividend policy. Younger firms in the growth phase may retain more earnings to finance future expansion, resulting in lower dividend payments. In contrast, more established firms with a longer operating history and accumulated profits may be more likely to pay dividends. Based on this explanation, this research forms the null hypothesis which indicates that previous dividend, return on assets, financial leverage, firm growth, tax, firm age and firm size have no discernible impact on dividend payout of selected quoted health sector companies listed on the Nigerian stock market.

This research is divided into six sections: this introduction is the first section, followed by literature review then the methodology of the study, results and discussion of findings, conclusion and recommendation.

## **2.0 Literature Review**

This section is divided into three subsections: conceptual review, empirical studies and the theoretical foundation of this study.

### **2.1 Conceptual Review**

This subsection presents a conceptual review on dividend policy and its determinants which include: previous

dividend, financial leverage, firm growth, tax, firm age and firm size.

### **Concepts of Dividend Policy**

Dividends, according to Pandey (2005), are earnings given to shareholders. Business dividends may take the form of stock dividends, in which case a firm issues new share to current shareholders in proportion to their existing shares, or shareholders take the form of cash dividends, in which case, the company pays shareholders a certain amount of cash per share (Zameer, 2013). The board of directors determines the amount to be distributed as a dividend, which is often paid quarterly, semi-annually, or yearly depending on the firm's policy (Badu, 2013). The method that managements use when determining the quantity and pattern of cash payouts to shareholders over time is known as a dividend policy (Lease, 2000).

### **Determinants of Dividend Policy**

According to Lintner (1956), more contemporary cash-flow signaling models, corporations make an effort to maintain consistent payouts, which over time produce enduring patterns. If a company wants consistency in dividend payments, it takes into account the dividend rate from the prior year and takes appropriate action. As a result, it is expected that the current dividend yield and its lagged value would be positively correlated. Lintner (1956)

singled out previous dividends as one of the determinants of dividend policy.

For profitability, the dividend payment decision of businesses begins with the realized profit hence, it is not unexpected that profitability is regarded as one of the most important factors of dividend framework (Bijana, Aleksandra & Jasmin, 2021). Zameer et al. (2013) emphasized that those businesses that are very prosperous give out a bigger portion of their profits as dividends. Return on assets is one of the key measures of financial ratios, including the gross profit margin, net profit margin, operating expense ratio, return on investment and return on equity. Return on assets, return on investment, and return on equity all relate profitability to investment. The term investment refers to total assets or net assets (Pandey, 2005). According to Rosikah et al (2018), the capacity of a corporation to generate profits utilizing all of its owned assets is measured by return on assets (ROA). A company that performs better will be more successful. Return on assets is used as a measure of profitability in this study because it measures per naira return on money spent in assets.

Financial leverage is seen as a crucial element that determines a company's dividend policy. It is a portion of the capital structure's use of debt of the firm. Both short and long-term debt to capital and total

debt to capital are debt ratios used to measure financial leverage as the percentage of financed debt, also known as interest-bearing debt, in the capital structure may be of relevance to the company. By dividing total debt by either capital employed or total assets, the debt ratio may be calculated (Rozeff, 1982). High debt indicates that businesses have high interest costs, which results in a poor net income and, consequently, a lower return on investment for shareholders. The finance and investment plans, particularly in the case of high leveraged enterprises, may suffer as a result of dividend payments to shareholders. Companies with high levels of debt have riskier and more fluctuating earnings, and as a result, they pay lower dividends (Rozeff, 1982). This study adopts total debt to total assets ratio because it takes into consideration, the proportion of total debt in the capital structure.

Several factors, including turnover/sales, employment, assets, market shares, and profitability, may be used to gauge a company's growth. Sales and employment are two of these metrics that are frequently employed as growth indicators (Ardishvili et al, 1998; Davidsson, 1991). Sales growth may be explained by two separate factors when used as a growth opportunity indicator. A company with strong growth, or a "growth firm," focuses

on financial investment projects, on increasing its business, and on using internal finance. Because such company is growing and its age is still young, the capacity to pay a tiny dividend has been limited. This demonstrates how growth prospects have a detrimental impact on dividends. This study adopts revenue growth because it is only when revenue is achieved that profit can be derived before dividend policy. Furthermore, the government levies tax on businesses in the form of a deduction from their earnings. High tax rates typically deter businesses and shareholders from paying out large dividends. This measure is adopted because it can be a reason of reduced dividend.

Age is the length of time during which a being or thing has existed. It can be operationalized as number of years of incorporation of the company. It is also viewed as listing age. The life cycle variable, age is the year when the firm was founded is referred to as (incorporated) plus one (Ilaboya & Ohioka, 2016). The foundation of the firm's life cycle theory of dividend is that every business has a clearly defined life cycle. Mature companies are able to pay out greater dividends because they have more retained profits, more accumulated profit, and less investment options. Young companies, on the other hand, are in the stage of developing new growth prospects and must accumulate

profit reserves to finance these chances, which have the effect of reducing dividend payments. This demonstrates that payouts are positively impacted by age (Labhane & Das, 2015).

Another variable is the firm size. It is the magnitude studies' methods for calculating the firm size of businesses frequently differ. For instance, Ofori (2018) utilized the logarithm of the number of workers as a measure of the size of enterprises, but Elias (2016) and Holder et al. (1998) used the natural logarithm of revenues. This study adopts the natural log of the total assets as a measure of firm size because the total assets are internal firm specific variable.

In summary, reviewed literature suggests that companies consider previous dividends, profitability, financial leverage, growth prospects, tax obligations, age, and firm size when formulating their dividend policies. These factors interact to shape the decision-making process and the allocation of funds between dividend payments and other financial priorities.

## **2.2 Empirical Review**

This subsection presents empirical review of previous studies on previous dividend, financial leverage, firm growth, tax, firm age, and firm size on dividend policy.

Elias (2016) examined previous dividend as a determinant of dividend payments at private banks in Ethiopia. Data for the study were obtained from the National Bank of Ethiopia and banks' audited financial statements for the five years ending in 2013/14. A total of 36 banks were sampled. The panel data regression approach was used to assess the data that had been obtained. Dividend payment was the dependent variable in the study, and there were seven independent factors, among them, is lagged dividend payout. The findings indicated that there was a significant positive relationship between lagged dividend payout (previous dividend) and dividend payout. The study was limited only to the Ethiopian banks; non-banks too need to be studied.

Gayathridevi (2017) examined previous dividend as one of the factors affecting the dividends paid by Indian textile companies between 1989 and 2009, using the backward elimination regression method. The result showed that lagged dividend has a significant positive connection to dividend payouts. The study was confined to textile firms; there is a need for the study to be extended to other non-textile firms.

Similarly, Ahmed et al. (2018) investigated the impact of growth on dividend payout of Islamic banks in Pakistan for a period between 2012 and 2016. A sample size of

33 banks was selected and regression analysis was used to estimate the relationship. It was discovered that growth has a negative and significant effect on the dividend payout of Islamic banks in Pakistan. The study is limited to a financial sector whose regulations differ from non-financial sector hence, there is need to investigate non-financial sector.

In another attempt, Ofori (2018) conducted a study on tax as a determinant of dividend payout ratios using Ghanaian-listed companies. A total of 31 firms were sampled using a purposive random sampling technique. The study covered eight years (2009-2016). The parameter was calculated using an ordinary least squares regression model. Tax was shown to have a little but favorable influence on dividend distribution. Ofori's finding is limited to Ghanaian firms and cannot apply to Nigerian firms with different regulations. Furthermore, Rajesh and Sujit (2018) studied firm size as a determinant of dividend payout among Indian businesses; the study's sample included 31,234 businesses from 15 distinct economic categories. The link was estimated using a structural equation model, and it was discovered that size had a positive and substantial impact on dividend payout. The study is only applicable to a few Indian and not Nigerian enterprises. Therefore, its scope is limited.

Furthermore, a research was carried out by Ahmed et al. (2018) on the conventional banking sector of Pakistan. They examined the result of growth on dividend payout of conventional banks in Pakistan for a period from 2012 to 2016. A sample size of 53 banks was selected and regression analysis was used to estimate the relationship between the variables. It was discovered that growth has a negative and substantial impact on the dividend payout of conventional banks in Pakistan. The study is limited to the financial sector of Pakistan whose regulations differ from non-financial hence, the need for a similar research to be carried out in the non-financial sector.

Similarly, Aulia & Alfarisi (2019) studied firm size as a determinant of dividend policy practices of Indonesia's publicly traded banks. Annual reports and databases were used to get the information between 2007 and 2016. A sample of 97 banks was used as a sample size. The Generalized Method of Moments (GMM) technique is used in the study's dynamic panel data model. The findings implied that size has a favorable and significant influence on dividend distribution. The study was on Indonesian banks. Banks are financial institutions that have different regulations from non-financial institutions.

Muhammad et al. (2020) studied the impact of profitability on dividend policy in the Pakistan Stock Exchange's two non-

financial sectors (food and electrical machinery). A total of 30 businesses were chosen, with 20 of them coming from the food industry and ten (10) from the electrical machinery industry over an 8-year term (2009-2016). The fixed-effect model's output for both sectors demonstrates that return on assets has a favorable and sizable impact on dividend payout. The research was limited to Pakistan's selected non-financial sectors which is different from that of Nigeria. As such, there is need to conduct of similar research in Nigeria.

Kengatharan (2021) investigated return on assets (ROA) as a determinant of Dividend Payout between 2016 and 2019 in real estate and property firms listed on the Indonesia Stock Exchange. Random sampling was used to select nine companies that were used as sample size. The research methodology used was both a method of explanatory analysis and linear regression. It was stated in the study that "the validity and reliability process were ignored because the data is primary". The results of this study showed that the ROA has a favorable and substantial impact on dividend policy. The study by ignoring the validity and reliability test of the data meant the findings were spurious.

Lastly, Kashif et al. (2021) studied financial leverage as a factor in determining the dividend policy of the pharmaceutical

companies of Pakistan. Seven years' data (2014-2020) were collected from seven firms that were purposively selected as sample size. Regression and correlation analysis was used; it was found that leverage has a negligible impact on dividend payout of the pharmaceutical industry of Pakistan. The study was limited only to the Pakistan pharmaceutical sector, as such; there is a need for other sectors to be studied as well.

### 2.3 Theoretical Framework

This research is underpinned by signaling theory. The theory was originally invented by Solomon (1963) who claimed that dividends may provide verifiable proof of the company's ability to create cash. Managers notify investors about the firm through the shift in cash dividend distribution rates. The information gap between management (insiders) and outside investors is mostly basis of arguments. Managers frequently have insider knowledge about the company's present and potential futures that outsiders (shareholders) do not. According to this notion, managers are encouraged to educate the market by paying dividends. The essence of this theory is that companies must make regular payments of dividends. The theory provides insights into the motivations behind dividend payments and in summary, return on assets, financial

leverage, tax, firm size, previous dividend, firm age are factors that can be considered as signals within the framework of signaling theory. These factors provide valuable information to external stakeholders and help shape their perceptions about a firm's financial health, stability, growth prospects, and managerial effectiveness.

### 3.0 Methodology

This research used *ex post facto* research design and its population cuts across the 10 quoted firms in the healthcare sector in Nigerian Exchange Group from 2012-2021. The choice of healthcare is connected to the fact that it seems to be under researched in sector Nigeria. In sourcing the data, the study adopted purposive/criterion sampling method based on firm's that pay dividend for at least, seven years, since most of the firms did not pay dividends in all the years under the review of this study. First, the study chose seven years in order to allow for a substantial collection of recent data to be used for analysis. Second, the firms chosen must have been quoted for at least 10 years within the period under review. Consequently, the study sampled three firms as follows: Fidson Healthcare, Glaxosmithkline Nigeria Plc., and May & Baker Nigeria Plc. and collected the data from their published annual reports.

In this line, the study used panel regression technique for analysis. This is because the nature of the data used consists of both time series and cross sectional components. Stata 13.0 is used for the analysis. Moreover, Hausman test was carried out to identify the appropriate (fixed or random effect model). The test was based on the null hypothesis that the random effect model is preferred to fixed effect model. The statistical model is:

$$Y_{it} = \beta_0 + \beta_1PREVD_{it} + \beta_2ROA_{it} + \beta_3LEV_{it} + \beta_4GROWTH_{it} + \beta_5TAX_{it} + \beta_6AGE_{it} + \beta_7SIZE_{it} + (eit + \Sigma)$$

Where:

Y = Dividend Payout ratio

*eit* = Control for individual specific effect when it is uncorrelated with repressors

$\beta_0$  = Intercept

$\beta_1$  = Coefficient of previous dividend

$\beta_2$  = Coefficient of return on assets

$\beta_3$  = Coefficient of financial leverage

$\beta_4$  = Coefficient of firm growth

$\beta_5$  = Coefficient of Tax

$\beta_6$  = Coefficient of firm age

$\beta_7$  = Coefficient of firm size

*i* = cross section

*t* = Time series

Table 1 presents variable, symbol, measurements, source and expected sign as used in this study

**Table 1: Measurement of Variables**

Variable	Symbol	Measurement	Source	Expected Sign
Dividend Payout	DIV	Dividend paid/Net Income	Bijana et al (2021)	
Previous Dividend	PREVD	Prior year (lagged) Dividend Payout	Raamli and Arfan (2016)	+
Return on Assets	ROA	Profit after tax / Total Assets	Westerfield et al, (2015)	+
Financial Leverage	LEV	Total Debt / Total Assets	Guglar and Yurtoglogly(2003)	-
Firm Growth	GROWTH	Current Sales Revenue-Previous Sales Revenue/ Previous Sales Revenue	Delmar (1997)	-
Tax	TAX	Total Tax Expenses/Earning Before Tax	Mehar (2007)	-
Firm Age	AGE	Date of Incorporation + 1 (leadtime)	Ilaboya and Ohioka (2016)	+
Firm Size	SIZE	Natural Log of Total Assets	Holder et al (1998)	+

**Sources: Researchers' Computation**

#### 4.0 Results and Discussion

The statistical results such as the descriptive statistics, correlation analysis, multi collinearity test, normality test, and the panel

regression together with their discussions are presented in this section as follows:

**4.1 Descriptive Statistics**

The descriptive statistics for all of the study's relevant variables are shown in this section.

Each variable's mean, median, maximum, and lowest values are investigated. The study's summary data are shown in Table 2.

**Table 2: Summary statistics**

Stat	DIV	PREVD	ROA	LEV	GROWTH	TAX	AGE	SIZE
Mean	.3294667	.3250407	.2230367	.5298133	.03146	.5738667	44.5	23.02267
Median	.20065	.1646	.03965	.5628	.06285	.32325	43.	23.352
Sd	.3464142	.3546512	.8775787	.1676603	.3237178	1.218516	21.38925	1.207872
Min	0	0	-.009	.0544	-.903	.1117	15	18.352
Max	.9849	.9849	4.8285	.967	.8363	6.9918	75	24.161
N	30	27	30	30	30	30	30	30

**Source: Researchers' Computation, 2022**

The mean value of dividend payout (DIV) for the sampled firms was 0.3294 while the median value was 0.20065. The standard deviation from the mean was 0.3464. This means the data was consistent. The minimum value of dividend payout was 0 while the maximum was 0.9849. This means that some firms that do not pay and those that paid above-average dividends above average were included in the sampled firms. There were 30 observations.

The mean value of previous dividend (PREVD) for the sampled firms was 0.3050 while the median value was 0.1646. The standard deviation from the mean was 0.3546. This means the data was consistent. The minimum value of PREVD was 0 while the maximum was 0.9849. This means that some firms that do not pay together with those that paid above-average dividends were included in the sampled firms. There were 27 observations.

The mean value of return on assets (ROA) for the sampled firms was 0.2230 while the median value was 0.03965. The standard deviation from the mean was 0.87757. This means the data was consistent. The minimum value of ROA was -0.0097 while the maximum was 4.8285. This means that some firms that return loss and those that were efficient in asset utilization were included in the sampled firms. There were 30 observations.

The mean value of financial leverage (LEV) for the sampled firms was 0.5298 while the median value was 0.5628. The standard deviation from the mean was 0.1676. This means the data was consistent. The minimum value of LEV was 0.0544 while the maximum was 0.967. This means that both less-levered and highly-levered firms were included in the sampled firms.

The mean value of firm growth (GROWTH) for the sampled firms was 0.03146 while the median value was 0.06285. This means the

data was free from outliers. The standard deviation from the mean was 0.3237. This means the data was consistent. The minimum value of GROWTH was -0.903 while the maximum was 0.8363. This means that some firms that were not growing and those experiencing much growth at a point in time were included in the sampled firms. The mean value of tax (TAX) for the sampled firms was 0.5738 while the median value was 0.3232. The standard deviation from the mean was 1.2185. The minimum value of TAX was 0.1117 while the maximum was 6.9918. This means that some firms that were charged tax even at less and those charged higher were included in the sampled firms. The mean value of firm age (AGE) for the sampled firms was 44.5 while the median value was 43.5. This means the data was free from outliers. The standard deviation from

the mean was 21.3892. This means most of the data were dispersed. The minimum value of age was 15 while the maximum was 75. This means that new and older firms were included in the sampled firms.

The mean value of firm size (SIZE) for the sampled firms was 23.0226 while the median value was 23.352. This means the data was free from an outlier. The standard deviation from the mean was 1.2078. This means the data was consistent. The minimum value of SIZE was 18.352 while the maximum was 24.161. This means that smaller and bigger firms were included in the sampled firms.

**4.2 Correlation Matrix**

This subsection presents the correlation table which used to assess the strength of relationship among the variables. Table 3 below depicts the relationship coefficients.

**Table 3: Correlation Matrix**

	DIV	PREVD	ROA	LEV	GROWTH	TAX	AGE	SIZE
DIV	1.0000							
PREVD	0.0487	1.0000						
ROA	0.0459	-0.1508	1.0000					
LEV	0.1510	-0.1164	0.4257	1.0000				
GROWTH	-0.1098	0.0740	-0.0892	0.0336	1.0000			
TAX	-0.1647	-0.2029	-0.1300	0.0811	0.0483	1.0000		
AGE	0.1041	0.0602	0.2212	0.0769	-0.1794	0.2175	1.0000	
SIZE	-0.0538	0.0800	-0.7829	-0.4588	0.0096	-0.0611	-0.4214	1.0000

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

The correlation between PREVD and DIV (0.0487) is weak positive. The correlation between ROA and DIV (0.0459) is weak positive; ROA and PREVD (-0.1508) is

weak negative. The correlation between LEV and DIV (0.1510) is very weak positive; LEV and PREVD (-0.1164) is very weak positive; LEV and ROA (0.4257) is

moderate positive. The correlation between GROWTH and DIV (-0.1098) is very weak negative; GROWTH and PREVD (0.0740) is very weak positive; GROWTH and ROA (-0.0892) is very weak negative; GROWTH and LEV (0.0336) is very weak positive. The correlation between TAX and DIV (-0.1647) is very weak negative; TAX and PREVD (-0.2029) is weak negative; TAX and ROA (-0.1300) is weak negative; TAX and LEV (0.0811) is very weak positive; TAX and GROWTH (0.0483) is very weak positive.

The correlation between AGE and DIV (0.1041) is very weak positive; AGE and PREVD (0.0602) is very weak positive; AGE and ROA (0.2212) is weak positive; AGE and LEV (0.0769) is very weak positive; AGE and GROWTH (-0.1794) is

weak negative; AGE and TAX (0.2175) is weak negative. While correlation between SIZE and DIV (-0.0538) is very weak negative; SIZE and PREVD (0.0800) is very weak positive; SIZE and ROA (-0.7829) is very strong negative; SIZE and LEV (0.4588) is moderate positive. Contrarily, SIZE and GROWTH (0.0096) is very weak positive; SIZE and TAX (-0.0611) is very weak negative. While SIZE and AGE (-0.0045) also, is very weak negative. All the coefficients suggest an absence of multicollinearity.

#### 4.3 Normality Test

This subsection presents the normality p-values to assess the fitness of the variables for regression analysis in Table 4.

**Table 4: Normality Test**

Variable	Obs	W	V	Z	Prob>z
DIV	30	0.92634	26.116	7.863	0.00000
PREVD	27	0.90262	31.458	8.273	0.00000
ROA	30	0.54149	162.558	12.270	0.00000
LEV	30	0.98453	5.485	4.102	0.00002
GROWTH	30	0.39053	216.080	12.956	0.00000
TAX	30	0.48596	182.247	12.546	0.00000
AGE	30	0.98592	4.993	3.876	0.00005
SIZE	30	0.80643	68.628	10.192	0.00000

Source: Researcher's computation

Shapiro Wilk normality test was conducted for the individual variables; the result is presented in Table 2. The p-value for each of the variables (DIV, PREVD, ROA, LEV, GROWTH, TAX, AGE, and SIZE) is 0.000 which is less than

5% respectively. This means the error terms are not normally distributed.

#### 4.4 Panel Regression Results

The regression results for both random and fixed effect regressions are presented in Table 5 below.

**Table 5: Panel Regression**

	Random
PREVD	0.010(1.33)
ROA	0.092(5.44)***
LEV	0.250(10.44)***
GROWTH	-0.011(-1.27)
TAX	0.098(3.42)***
AGE	0.000(0.59)
SIZE	0.035(4.60)***
Cons	-0.001(-0.79)
Chi	8386***
F statistics	
R <sup>2</sup>	0.84
Hausman	Chi 2.27 (Prob0.9434)

**Source: Researcher’s computation**

*Note.* This table demonstrates the T or Z Statistic in parentheses. \*\*\* p<0.01, \*p<0.05,\*p<0.1

To choose between random and fixed effect model in order to determine whether the random effect model or the fixed-effect model is preferable, the Hausman test was carried out. According to the Hausman test's p-value of 0.943, the null hypothesis cannot be ruled out at a significance level greater than 5%. This suggests that conclusions and suggestions should be based on the random effect panel regression result.

The chi-square value of (8386, p< 1%) for the random effect model shows that for the study population, the model is valid and well-specified for drawing inference since it is statistically significant at 1%. This is corroborated by the coefficient of determination (R-squared overall), it was observed in the sample, that 84% systematic variations in Dividend Payout (DIV) was explained jointly by the independent variables (PREVD, ROA, LEV, GROWTH, TAX, AGE and SIZE) in the random effect

model. This means the model is a perfect match. The following list includes the precise results from each explanatory factor in the random effect panel regression models: It was found that Previous Dividend (PREVD) has a negligible impact (0.010, p>0.05) on Dividend Payout (DIV) of selected quoted health sector firms in the Nigerian Stock Exchange at greater than 5% p-value. The coefficient is positive. It means for every 1 % increase in PREVD, DIV increases by 1 %, For this reason, the null hypothesis (H<sub>0</sub>) which states that previous dividend has no significant effect on dividend policy of selected quoted health sector firms in the Nigerian stock exchange is not rejected. The finding is contrary to that of Gayathridevi (2017). This because the study was conducted in faraway Indian textile firms. Return on Assets (ROA) was found to have a significant effect (0.092, p<0.01) on dividend payout (DIV) of the

selected quoted health sector firms in the Nigerian Stock Exchange at less than 1% p-value. The coefficient is positive. It means for every 1% increase in ROA, DIV increases by 9%, for this reason, the null hypothesis ( $H_0$ ) which states that Return on Asset has no significant effect on dividend payout of selected quoted health sector Nigerian Stock Exchange companies is rejected. This study, therefore, accepts the alternative hypothesis that returns on assets has a significant effect on dividend payout of selected quoted health sector Nigerian Stock Exchange companies. This finding disagreed with that of Muhammad et al (2021) but conforms to that of Ahmad et al. (2018).

Furthermore, financial leverage (LEV) has a significant effect (0.250,  $p < 0.01$ ) on dividend payout (DIV) of quoted non-financial firms in Nigeria at greater than 1% p-value. The coefficient is positive. It means for every 1 % increase in LEV, DIV will increase by 25%, For this reason, the null hypothesis ( $H_0$ ) which states that financial leverage has no significant effect on dividend payout of selected quoted health sector firms in the Nigerian Stock Exchange is rejected. This study, therefore, accepts the alternative hypothesis that financial leverage has a significant effect on dividend payout of selected quoted health sector firms in the Nigerian Stock Exchange. This finding is contrary to that of Ahmad et al.

(2018) who reported a significant and negative effect.

On the contrary, growth (GROWTH) was found to have an insignificant effect (-0.011,  $p > 0.05$ ) on dividend payout (DIV) of quoted non-financial firms in Nigeria at more than 5 % p-value. The coefficient is negative. This means for every 1 % increase in GROWTH, DIV will decrease by 1.1%, For this reason, the null hypothesis ( $H_0$ ) which states that growth has no significant effect on dividend payout of selected quoted health sector firms in the Nigerian Stock Exchange Group is accepted. Tax (TAX) has a significant effect (0.098,  $p < 0.01$ ) on dividend payout (DIV) of quoted non-financial firms in Nigeria at less than 1 % p-value. The coefficient is positive. This means for every 1% increase in TAX, DIV will increase by 9.8%, and for this reason, the null hypothesis ( $H_0$ ) which states that Dividend distribution is not significantly impacted by tax of selected quoted health sector firms in the Nigerian Stock Exchange is rejected. This study therefore, accepts the alternative hypothesis that tax has a significant effect on the dividend payout of selected quoted health sector firms in the Nigerian Exchange Group. This is not in line with the findings of Ofori (2018).

Furthermore, firm age (AGE) was found to have an insignificant effect (0.000,  $p > 0.05$ ) on dividend payout (DIV) of quoted non-financial firms in Nigeria at more than 5 %

p-value. The coefficient is positive. This means for every 1 % increase in AGE, DIV will increase by nothing 0.00%. For this reason, the null hypothesis ( $H_0$ ) which states that firm age has no significant effect on dividend payout of selected quoted health sector firms in the Nigerian Exchange Group is not rejected. However, firm size (SIZE) has a significant effect (0.035,  $p < 0.01$ ) on dividend payout (DIV) of quoted non-financial firms in Nigeria at less than 1% p-value. The coefficient is positive. This means for every 1% increase in SIZE, DIV will increase by 3.5%, For this reason, the null hypothesis ( $H_0$ ) It claims that company size has no bearing on dividend payout of selected quoted health sector firms in the Nigerian Stock Exchange is rejected. This study, therefore, accepts the alternative hypothesis that the size of a company significantly affects dividend payout of selected quoted health sector firms in the Nigeria Stock Exchange. In absence of all the explanatory variables, dividend payout (DIV) is expected to insignificantly decrease by 0.1 (-0.001,  $p > 0.05$ ). This finding is conformity with that of Aulia & Alfarisi (2019).

## **5.0 Conclusion and Recommendations**

This study examined the determinants of dividend policy of selected quoted health sector firms in Nigeria. It is evident that return on assets, financial leverage, tax, and firm size accounts for the nature of dividend

payment by selected quoted healthcare sector firms in Nigeria. However, previous dividend, firm growth and firm age do not account for nature of dividend payment of the quoted firms in the health sector. This means they cannot be used for inference. Based on this, the following are recommended.

The management should, continue ensuring efficient utilization of assets to generate more profit through prudential management of resources. This may involve optimizing asset allocation, improving operational efficiency and implementing effective cost-control measures. Also, the management of the firms should also set aside some funds from profit being made to meet its debts obligation in the capital structure as dividend is being paid. This involves careful monitoring of debt levels and the ability to generate cash flows to support both dividend payments and debt obligations. Moreover, government should encourage/ support the firms by reducing income tax through implementing policies that reduce income tax burdens, thereby incentivizing firms to increase dividend payouts.

Lastly, firms should extend their reach by investing more on projects/assets with a positive net present value. This can be done through identifying and pursuing opportunities for growth and strategically allocating resources to fuel expansion.

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## Impact of Corporate Governance and Firm Specific factors on Capital Structure of Publicly Listed Non-Financial Firms in Nigeria

By

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### Abstract

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*This study examined the impact of corporate governance and firm-specific variables on the capital structure of non-financial companies listed on the Nigerian Stock Exchange from 2006 to 2020. The study utilized secondary data obtained from a sample of 58 publicly listed companies. Generalized method of moments technique was used to analyze the data. The findings revealed that liquidity, return on equity, non-current asset, and debt tax shield were found to have positive and significant influence on long term debt to asset. Tangibility, returns on asset, board and block ownership were found to have negative and significant influence on long term debt to assets. In addition, all firm specific and corporate governance factors have significant influence on long term debt to equity. These findings are consistent with prior studies and provide important insights for firms, investors and policy makers desiring to know much about optimal capital structure decisions. Thus, the study recommended that Nigerian companies should monitor their liquidity levels, and strive for profitability to reduce debt burdens in their financing decisions.*

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**Keywords:** Capital structure, corporate governance factors, Firm specific factor, Publicly-quoted, Non-financial firms.

### 1.0 Introduction

Capital Structure is the mix of equity and long term debt sources of finance kept by the company for its operations and investment purposes. Robust capital structure is very important for the company as it helps to maximize the shareholder's capital while minimizing the cost of capital for the company. Most companies maintain a target capital, even though the debt-equity mix may vary over time (Gitman & Zutter, 2012). Firms' profitability and sustainability are impacted one way or the other by various factors among which is the capital structure, which in turn is also influenced by both corporate governance and firm specific

factors. Growth and financial stability are supported by corporate governance, which entails having the rules and policies that govern the interaction between a company's management and its shareholders, as well as other stakeholders like its employees and creditors (OECD 2004). Firm specific factors are factors that are peculiar to each organization but are considered very important in making decisions regarding capital structure; they include profitability, liquidity, asset structure, debt effectiveness and many others. These factors and corporate governance variables such as board ownership, block ownership and

board independence have influence on decisions regarding capital structure and are salient areas in corporate finance that are crucial for maximizing shareholders' returns, firm value enhancement, smooth running of firms operation and even the ability of firms to survive amidst competitions. Corporate governance is a set of rules, regulations, strategies, and tools that are used to run and control a business. (Organization for Economic Cooperation and Development, 2004). So, good corporate governance is the set of rules and practices that govern the relationship between a company's managers and shareholders, as well as other stakeholders like employees and creditors. This helps growth and financial stability by supporting market confidence, financial market integrity, and economic efficiency (OECD, 2004). Conceptually, corporate governance is about balancing the needs of different groups, such as shareholders, managers, employees, customers, suppliers, creditors, loan givers, governments, and the community. Corporate governance variables are beneficial to non-financial firms in that they help to improve access to finance, reduced cost of capital, and enhanced performance (Fahad & Rahman, 2020).

The primary goal of effective corporate governance is linked to the company's accountability, responsibility, and mechanisms in promoting ethical conduct

and safeguarding the interests of shareholders, which includes fulfilling obligations such as the payment of corporate taxes and other related dues (Waluyo, 2017). It is only when managers are accountable and ethically upright that they efficiently manage funds, run the business and generate high profitability in the interest of the shareholders. In order to enhance market value and reduce cost of capital, managers need to get an optimum mix of equity and debt, which is the primary aim of capital structure (Bokpin & Arko, 2010).

The importance of capital structure was first introduced by Modigliani and Miller's (1958), in which they posited that in a perfect capital market, the market value of a firm is independent of the source of funding utilized to undertake investments. The reason for this is that investors can borrow or lend money at a standardized interest rate to counteract the effect of funding investments, since in this market, there is no transaction cost, no information asymmetry, no taxation, no bankruptcy cost and there is free entry and exit; it is therefore expected that the weighted average cost of capital (WACC) remains constant regardless of the proportion of equity and debt utilized. However, in 1963, their position changed due to the effect of tax shield, as interest paid on debt is allowed as deductible expense for tax, thus reduces the amount of tax liability and increases the profit available to

shareholders. This in turn reduces the weighted average cost of capital and enhances the market value of the firm. The prevailing body of literature concentrates on scrutinizing corporate governance and capital structure in developed countries, as exemplified by the scholarly contributions of Shelkh and Wang (2012) and Welalage, Locke, and Acharya (2018). Certain scholars (Ekreozzi, 2013; Lious, Cecilio, & Felix, 2016; Miguel et al., 2015) concentrated exclusively on the company-specific factors that influence capital structure within developed economies.

The relationship between corporate governance and firm-specific factors in determining the capital structure of companies operating in developing economies, such as Nigeria, has not been adequately emphasised. In developing economies like Nigeria, less attention is placed on the combination of firm-specific and corporate governance factors that affect the capital structure of firms. Nigeria has weak corporate governance and a weak capital market. This was made pronounced when overstatements were found in Cadbury Nigeria Plc.'s 2007 accounts, due to poor corporate governance and weak management control.

Prior studies conducted in emerging economy have predominantly concentrated on investigating the influence of either firm-specific variables on capital structure or

corporate governance variables on the capital structure of non-financial quoted firms. The impact of the combination of corporate governance and firm-specific factors on the capital structure of non-financial quoted firms in developing countries, particularly in the context of weak capital markets and poor corporate governance, such as in Nigeria, has received insufficient scholarly scrutiny, this constitutes a gap that this paper seek to fill.

In addition, long term debt to asset and long term debt to equity are the primary components that constitute the capital structure of a firm. Prior research employed long-term debt to asset, short-term debt to asset and total debt to asset as proxies for capital structure. Nevertheless, the equity aspect of the capital structure, specifically long-term debt to equity on capital structure, has received limited attention in prior research and this constitutes another gap that this paper seek to fill. In the same vein, most non-financial quoted firms in Nigeria prefer to source for short-term debt such as overdraft and bank loans, due to their inability to source for long-term debt and then use same for long term investment by rolling over such debt for years, thus turning short-term debt into long term debt; this has devastating effects on cost of capital of such firms, as interest on loans continue to rise. Another challenge that non-financial firms face is the choice of capital structure to

employ. Fixed interest payment, whether or not the firm has the capacity to repay, is encountered with debt financing, while the challenge of ownership dilution is encountered with equity financing. Therefore, the two components that make up the capital structure of firm's capital have to be critically considered by managers at the helm of financial affairs in firms because using a wrong choice can lead the firms to insolvencies and liquidity issues (Abor, 2007).

## **2.0 Literature Review**

### **2.1 Preamble**

Section 2.2 discusses the concepts of the three variables, that is, the corporate governance, firm-specific factors and capital structure; section 2.3 reviews the literature by taking each variable and relating it with the dependent variable, capital structure, while section 2.4 discusses the overview of fundamental theories of firm-specific, corporate governance and capital structure, and presents a conceptual model to end this section.

### **2.2 Conceptual Literature**

#### **2.2.1 Corporate governance concepts**

Corporate governance is a solution for agency problem, which is the consequence of the separation of ownership and control. Conflict of interests arises between managers, who are in control of the firm and shareholders who invest in the firm but they

are unable to supervise its daily operations, leading to a situation where managers prioritize their benefits over those of the shareholders and misuse the firm's resources. The aim of corporate governance therefore, is to establish the means by which shareholders and other capital providers ensure that they can obtain returns for their investments and create the mechanisms that enable them to supervise managers.

In response to the persistent interest in sound CG concepts, the organization for Economic Cooperation and Development (OECD) introduced a set of standards and guidelines known as Principles of CG to assist policymakers in evaluating and improving the law system, rule and regulation system, and the institution system related to CG, thus promoting economic growth and sustainability of financial stability (OECD, 2015). The practice of corporate governance in firms has developed rapidly in recent times, and its significance has been highlighted around the world as it underpins a company's operating framework. The adoption and usage of CG principles in firms benefit the owners, as it helps to effectively monitors the firm's activities, especially when the principles of disclosure and transparency are adopted (Grantham, 2020). It is pertinent to know that the concept of CG is framed within business ethics. Business ethics is the ethics applied to the organizational field, which refers to human

quality, the excellence of people and their actions, within the framework of their work. Good business conduct practices are embodied in codes of ethics, which contemplate the values that are established in the system for the firm's benefit. With this in mind, CG can be defined as the system by which firms are directed and controlled. The objective of good governance codes is to protect shareholders from the power of managers and avoiding the agency problems existing between them.

The principle of CG among others include protection of the rights of shareholders and ensure equitable treatment for all of them; ensuring that all shareholders have effective compensation for damages, whenever their rights are violated; recognizing the rights of interested third parties and promoting active cooperation between all stakeholders in the creation of wealth, generation of jobs and achievement of sustainable financial enterprises (OECD, 2015). The study conducted by Thakolwiroj and Sithipolvanichgul (2021) involved the analysis of data obtained from 421 publicly traded companies in Thailand during the period spanning 2015 to 2017. Multiple regression analysis was employed to examine the correlation between board characteristics and capital structure. The study revealed that the total debt to assets was negatively impacted by independent directors, board size, and board meetings. The metric of total

debt to assets is subject to positive influence from various factors, including but not limited to the size of the firm, its growth prospects, the degree of managerial ownership, and the grade of corporate governance.

Sani and Alifah (2021) conducted an analysis of 56 non-financial enterprises that were listed in Nigeria during the period of 2012 to 2018. The study aimed to examine the correlation between board independence and capital structure. The study employed a balanced panel data regression random effect approach to analyse the data, with the debt ratio serving as a proxy for capital structure. The study employed board size, business size, tangibility, and return on assets as control variables, and board independence and institutional ownership as independent variables. The findings indicated that institutional ownership serves as a favourable moderator in the relationship between board independence and leverage.

#### 2.2.2 Firm-specific factors and concepts

Each business organization has a uniqueness that differentiates management practice of one firm from another. Business organization theory posits that firm's behaviour is affected by internal and external factors (Jones, 2013). Internal factors are closely related to the firm's specific factors such as firm's size, firm's age, industry type, and resources such as: liquidity, profitability, asset tangibility and

ownership; while the business environment is one of the external factors (Vecchiato, 2012). Firm-specific factors distinguish one firm from another in terms of its functions and operations. Different firms have different strengths and weaknesses that affect the choice of capital structure. A large firm is associated with superior resources compared to a small firm. Matured firms have more profitability, liquidity and assets accumulated over the years than young and upcoming firms. Skills may be firm-specific, if the equipment the firm operates with is unique to that firm. Firm-specific variables are tangibility, profitability, liquidity, firm size and market to book ratio and other variables that distinguish one firm from the other. The study conducted by Liou, Cecilio, and Felix (2016) involved the analysis of 77 non-financial Spanish enterprises that were registered on the Madrid Stock Exchange within the period spanning from 2001 to 2014. The firm specific variables that were assessed included tangibility, scale, volatility, profitability, non-debt tax shield, expansion potential, and industry implications. The study revealed that leverage exhibited a noteworthy and unfavourable correlation with profitability, growth prospects, and volatility,

Atif (2021) inferred that Indian enterprises place significant reliance on financing options with a short-term horizon. Various

factors such as profitability, firm size, liquidity, tax rates, and business hazards were the significant determinants of the capital structure of Indian enterprises.

Khaled and An-Nisha (2021) conducted a study in Asia using cross-sectional OLS regression analysis, the dependent variable of capital structure was approximated by utilizing the ratio of debts to total assets. Exogenous variables comprised factors such as a firm's profitability, magnitude, expansion, asset composition, and hazard. The findings indicated a significant and positive correlation between the capital structure of the company and profitability.

### **2.2.3 Capital structure concepts**

**Optimum capital structure:** An Optimal capital structure is the mix of debt and equity financing that minimizes the weighted average cost of capital and enhances the value of the firm. The effort of financial manager in setting suitable targets and continuous adjustments of the targets for equity and debt mix is to achieve optimal capital structure. In order to maximize the intrinsic value of the firm, the weighted average cost of capital must be reduced to the lowest level. When this point is reached, the optimum capital structure is achieved. Optimum capital structure as defined by Parmasivan & Subramanian, (2009) is the capital structure level that assures the maximization of the shareholders' wealth as well as enhancing the value of the firm at the

lowest weighted average cost of capital. The concepts and factors affecting capital structure include the firm's cost of capital, nature and size of the firm, capital markets condition, debt to equity ratio and ownership. These factors help to choose an optimum capital structure for a firm

### **2.3 Review of Literature on variables**

Capital Structure is influenced by many corporate governance and firm specific factors that have demonstrable effects on the choices of firms' capital structure. Some of the variables are discussed below with a view to showing the prediction of various capital structure theories on them.

#### **2.3.1 Board ownership and Capital Structure:**

A group of people who represents the interests of a company's shareholders is referred to as board of directors. The board also provides guidance and advice to the company's chief executive officer and executive team as well as general oversight of operations without getting involved in day-to-day operations. They are elected by shareholders in the case of public companies to set strategy and oversee management. Retaining or increasing managerial control is a major concern for managers, as it affords them the opportunity of accessing private benefits and making more decisions, hence, they prefer to issue more debts rather than equity in order to avoid dilution in shares arising from issuing new shares, thus, debt

is a means of reinforcing managers control and resisting takeovers. Hence, board ownership is expected to have a positive relationship with capital structure in line with trade off theory. Firms with higher insider ownership have higher debts than those with outsider ownership. The positive board ownership-capital structure prediction finds empirical support from (Thakolwiroj & Sithipolvanichgul, 2021). Similarly, having high debt affords the managers with excess cash to undertake sub-optimum investments for their selfish interests, However, Salman, (2014) found a negative relationship between board ownership and capital structure in line with pecking order theory and concluded that higher level of insider ownership can help companies to control their cost of capital.

#### **2.3.2 Block Ownership and Capital Structure**

Individuals' and institutions' abilities, skills and experiences in respect of monitoring and controlling the business activities of a firm and their management vary; however, institutional investments enhance the controlling process over management decisions and lead to improved financial decisions and performance (Al-Najjar, 2015). A block holder is the owner of a large block or substantial amount of a company's shares and/or bonds. These owners are often able to influence the company with the voting rights awarded with their holdings.

Due to large number of shares held, block holders can influence the direction of a company through exercising their voting rights and threats to sell their shares, negatively impacting the price. Block ownership influence decisions regarding capital structure by controlling the conflicts arising between shareholders and managers, by ensuring that managers act in the best interest of the shareholders through proper monitoring of managers activities. Block ownership enhances the quality of corporate governance and increases the effectiveness and efficiency of managers by monitoring managers, which may determine the debt level.

### **2.3.3. Board Independence and Capital Structure**

An independent, outside or non-executive director is a member of a board of directors who does not have a material relationship with the company or related persons, except sitting fees. The importance of board independence with the emergence of non-executive directors on the board of directors has been increasingly highlighted by regulators. The efficiency of the board monitoring function over managers is linked with the independence of the board (fama & Jensen, 1983).

The resource dependence theory and Agency theory strongly support the appointment of independent directors. Resource dependency theory affirms that

independent directors are seen as valued source of external resources and information for firms (Hilman & Dalziel, 2003). They perceive risks and devise ways of safeguarding the firm against such risk (Ehikioya, 2009).

### **2.3.4 Liquidity and Capital Structure**

An organization's liquidity denotes the capability of the organization to meet its short term debts and other obligations. Kimondo, Irungu, and Obanda (2016) argued that maintaining an optimal level of liquidity is crucial for maximising profitability, improving shareholder welfare, and enhancing organisational value. Bolek and Wolski, (2017) saw liquidity as the capacity of an organization to meet its current liabilities, as measured by different financial ratios, Obim, Takon, and Mgbado (2020) examined the impact of liquidity on banks' profitability, using ordinary least square multiple regression technique, the result revealed a positive but insignificant relationship between bank deposit and return on asset, and a positive and insignificant relationship between treasury bills and return on asset. Similarly, Ajose and Balogun, (2021) examined the impact of management of liquidity on the financial performance of deposit money banks in Nigeria from the year 2011 to 2020, using ex-post facto research design. The result revealed that management of liquidity

has a positive and significant effect on the financial performance of banks in Nigeria.

### **2.3.5 Profitability and Capital Structure**

The concept of profit in business refers to the disparity between the revenue generated by a company from its products or services and the potential costs of the resources utilized in the production process. The calculation of profit involves subtracting the sum of explicit and implicit costs from total revenue. An increase in profitability results in a corresponding increase in internal funds generated from retained earnings, thereby reducing the relative proportion of debt within the capital structure. Pecking order theory predicts that there should be a negative relationship between profitability and leverage, since the order have preference for internally generated form of finance over external funds. Profitability is related to availability of internal funds and may therefore be related to less leverage with respect to pecking order theory, Liou et al., (2016) found that profitability is negatively and statistically significant with debt issues on the balance sheet.

### **2.3.6 Tangibility and Capital Structure**

As a company ages, it accumulates fixed assets to use in its production processes; its creditors may look to the size of these assets as collateral in the event that the company goes into financial distress and the creditors are unable to recoup their initial investment

(Erika, 2019). More tangible assets also alleviate conflicts between debt holders and shareholders, while creditors also have renewed guarantee of repayment, since tangible assets serves as collateral against inability to repay (Jensen & Meckling, 1976). Trade-off theory predicts and supports a positive relationship between tangibility and leverage. In the same vein, managers of highly geared firms are cautious of the danger involve in their inability to pay fixed interest to debt holders who are closely monitoring their activities, such managers are not able to consume perquisites of office in excess, (Grossman & Hart, 1982). Pecking order theory however, predicts an inverse relationship between capital structure and asset tangibility. This may be due to low information asymmetry in respect of tangible assets, making cost of equity issuance lesser.

### **2.3.7 Debt tax shield and Capital Structure**

The concept of tax shield effect pertains to various mechanisms or strategies that can mitigate the impact of corporate taxation, encompassing both debt tax shields and non-debt tax shields. The concept of tax shield pertains to the decrease in the amount of income tax that arises from the utilization of a permissible deduction from the taxable income. The prediction of the trade-off theory is a positive relationship between capital structure and effective rate of taxation, the higher the effective tax rate, the

higher the benefits derived in form of debt interest tax shield. When the tax rate is high, firms issue more debts to take advantage of the increased interest tax shield as predicted by the trade-off theory and affirmed by Frank and Goyal (2009). If tax rate depletes internal funds, debts will be favoured in the pecking order theory. Akinyomi and Olagunju (2013) found a negative and insignificant relationship between capital structure and debt tax shield. Similarly, Choi (2014) found a negative and significant relationship between capital structure and debt tax shield.

## **2.4 Theoretical Review**

This paper is based on the following three theories

### **2.4.1 Pecking order Theory (Asymmetric information model)**

The pecking order theory, originally introduced by Donaldson (1961) and later refined by Myers and Majluf (1984), describes the financing preferences of managers for their investment opportunities. This theory posits that managers prefer to finance their investments first through internal funds, such as retained earnings, and then through external financing sources, such as debt or equity. This preference arises from the concept of information asymmetry, where managers possess more and better information about the company than external stakeholders, leading to an imbalance in transaction power. To

compensate for this, external stakeholders demand higher returns, making internal financing the cheapest and most convenient source of financing. When external financing is required, managers prefer debt over equity due to the lower cost of debt financing. Debt holders require a lower return as compared to shareholders, who require a higher return due to their lower claim to assets in the event of bankruptcy. The issuance of debt signals confidence in the investment and may indicate an undervalued stock.

### **2.4.2 The Trade-off Theory**

The theoretical construct referred to as "Trade-off theory" pertains to the tax-bankruptcy nexus of debt financing. The classical notion of trade-off as introduced by Kraus and Litzenberger (1973), entails a deliberation of the expenses associated with bankruptcy in comparison to the advantages of tax savings that arise from debt. The trade-off theory aims to explain how a company can achieve an ideal capital structure. The attainment of a harmonious equilibrium between the benefits arising from the tax shield and the expenses incurred as a result of financial distress is accomplished through the regulation of debt and equity levels.

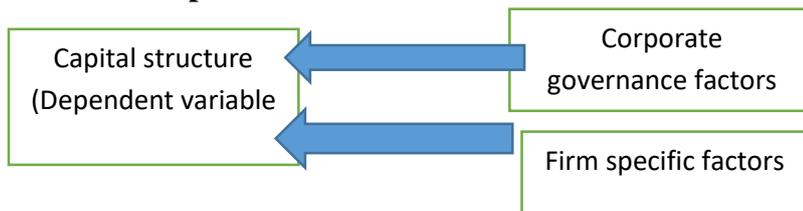
### **2.4.3 Resource dependence theory**

This theory was initially introduced by Pfeffer & Salancik, (1978), having its root from sociology theory of social network.

The theory focuses on firms collaborating with other powerful external organizations to increase the flow of resources. In corporate governance, this theory focuses on the important roles of ‘non-executive directors’ in providing critical resources to the firm. This theory perceives board of

directors as providers of diversified resources to the firm, called board capital (Hilman & Dalziel, 2003). Board capital, can be in the form of ‘human capital, such as experience, expertise, reputation’ and ‘relational capital, such as networking other firms and external contingencies’.

### 2.5 Conceptual Model



### 3.0 Methodology

#### 3.1 Research Design

The research design adopted in this study is deductive and quantitative approach, which is easy to explain based on data analysis results as well as easy to conclude. It is in line with the literature (Hussein & Al-Najjar, 2020). Characteristics of the data used for the study qualified it for a dynamic panel study. The longitudinal nature, that is fifteen year time period from year 2006 to year 2020, and the cross-sectional attributes, that is fifty-eight firms, substantiates the usage of dynamic panel technique. This technique takes care of heterogeneity problems and therefore better than ordinary least square panel regression analysis, 4 estimator and many other techniques that give bias results due to heteroscedasticity problems..

#### 3.2 Population of the Study

The population of the study consists of 123 non-financial quoted companies on the Nigerian exchange group for the period covering the year 2006 to the year 2020.

##### 3.2.1 The Sample Size

The sample size was determined using inclusion and exclusion approach. The principle of inclusion and exclusion (PIE) is a counting technique that computes the number of elements that satisfy at least one of several properties, while guaranteeing` that elements satisfying more than one property are not counted twice. Companies that have continuous data for fifteen years from year 2006 to year 2020 only were included, while newly listed companies not having adequate data for 15 years and repeated names of some firms were excluded, only 58 firms that had all the relevant data for all the research variables

due to continuous existence for fifteen years, constitute the sample for the study.

**3.3 Data Collection Method**

Secondary data (historical data) were collected in respect of dependent and independent variables from sampled companies’ annual financial statements for the fifteen year period covering the year 2006 to the year 2020. Secondary data usage provides systematic, empirical and unambiguous answers to research questions, since such data were independently provided by statutory auditors in audited

financial statements these reports are reliable, verifiable and less prone to research manipulation. Data for this study were obtained from the audited financial statements of each of the sampled companies as compiled by Machame Ratios @ database from official sources such as the Nigerian Exchange Group and Central Bank of Nigeria Statistical Bulletins for the year 2006 to the year 2020.

**3.1 Model Specifications**

The following models are specified.

**Model 1**

$$LTDA_{it} = \beta_0 + \beta_1LTDA_{it}(-1) + \beta_2CUTR_{it} + \beta_3ROET_{it} + \beta_4ROA_{it} + \beta_5TANG_{it} + \beta_6NCAR_{it} + \beta_7DTAX_{it} + \beta_8MAOW_{it} + \beta_9BLOW_{it} + \beta_{10}BODI_{it} + \varepsilon_{it} \dots\dots\dots 1$$

Where

LTDA = Long-term debt to Asset

**Model 2**

$$LTDE_{it} = \beta_0 + \beta_1LTDE_{it}(-1) + \beta_2CUTR_{it} + \beta_3ROET_{it} + \beta_4ROA_{it} + \beta_5TANG_{it} + \beta_6NCAR_{it} + \beta_7DTAX_{it} + \beta_8MAOW_{it} + \beta_9BLOW_{it} + \beta_{10}BODI_{it} + \varepsilon_{it} \dots\dots\dots 2$$

Where

LTDE = Long-term debt to Equity, Dependent Variable

**Table 1: Variables of the study and their measurement**

Variables	Measurement of Variables	Proxies		Sources
Long-Term debt to Asset Long-term debt to equity	Long-term debt/total assets Long-term debt/ sharehold equity	LTDA LTDE	Dependent Variable DV	Akinyomi & olagunju, (2013) Determinants of capital Structure: Evidence from Kuwait
Board ownership	% of controlling sharehold owned by the by the manag who actively participate in corporate dec	MAOW	Independent	Hussain, S. (2020) The measurement of corporate Governance Mechanism and firm performance (researchgate.net)
Block Ownership	% of equity shares owned I outside Institutions (I.e Institutional investors' ownership at time t for firm I)	BLOW	Independent	Akbar, M., Ahmad, T., Hussain. S., and Hassan, S. (2020). Corporate Governance And Firm Performance in Pakistan: Dynamic panel estimation www.researchgate.net/publication
Board Independent	No of independent director Number of board members	BODI	Independent	Akbar, M., Ahmad, T., Hussain. S., and Hassan, S. (2020). Corporate Governance And Firm Performance in Pakistan: Dynamic panel estimation www.researchgate.net/publication
Liquidity	Current Ratio = Current Asset / Current Lia	CURR	Independent	Mueller, J. (2022). What Financial Liquidity Asset Classes, Pro & Cons,- Investopedia
Profitability	Return on Asset = Net Income / Total Assets Return on equity = Net Income/shareholders'	RETA ROET	Independent Independent	Hargrave, M, (2022) Return on Assets (ROA): Formula and 'Good' ROA Defined- Investopedia Fernando, J. (2023). Return on Equity (ROE) Calculation and What it means- Investopedia, corporate finance-Financial ratios
Asset Tangibility Net Tangible Ass	Fixed assets/ Total assets Total Assets - intangible a total liabilities	TANG	Independent	Kenton, W. (2022) What is a tangible asset? Comparison to non-Tangible assets - Investopedia
Non-current asset	Original purchase cost of long term investments less depreciation	NCAR	Independent	Peterdy, K. (2020) WHAT ARE NON-CURRENT aSSETS? Corporatefinanceinstitute.com
Debt tax shield	Average debt x cost of deb x tax rate OR Value of tax - deductible expenses x tax rate	TANG	Independent	Kagan, J. (2023) Tax Shield: Definition, Formula for Calculation and Example -- Investopedia

**Source: Author's computation**

**4: Results and Discussion of Findings**

**4.1 Multi-Collinearity Test using Variance Inflated Factor and Tolerance Value:**

Multi-col linearity can be tested using the variance inflated factor and tolerance level. If the VIF was more than or equal to 10 and tolerance was lower than 0.10, then there is multi-collinearity

in the model. The VIF for this study ranges between 1.02 and 2.79 and the tolerance ranges between 0.3590 and 0.9842, while the mean value of the VIF was 1.42, which is less than 10 and the tolerance greater than 0.10, thereby indicating the absence of multi-collinearity.

**Table 2: Variance Inflated factor and Tolerance Value**

VARIABLE	VIF	1/VIF
MAOW	1.21	0.8249
BLOW	1.21	0.8266
BODI	1.12	0.8956
CUTR	1.13	0.8842
RETA	1.38	0.7225
ROET	1.02	0.9842
TANG	2.79	0.3590
NCAR	2.77	0.3615
DTAX	1.21	0.8290
MEAN VIF	1.42	

**4.2 Table 3: Results of Descriptive Analysis**

VARIABLES	MEAN	MEDIAN	MAXIMUM	MINIMUM	STD. DEV	SKEWNESS	KURTOSIS
LTDA	11.413	9.533	64.046	-23.673	9.572	1.117	5.736
LTDE	28.632	22.481	100.000	-41.421	25.575	0.890	3.440
CUTR	1.439	1.214	19.251	0.232	1.084	9.838	157.037
ROET	14.327	12.098	92.390	-76.123	22.428	-0.045	6.205
ROA	5.912	4.874	42.036	-43.335	9.233	-0.467	7.849
TANG	35.996	33.825	98.000	0.101	20.158	0.272	2.291
NCAR	43.964	42.974	91.916	0.000	22.211	0.042	2.207
DTAX	2.670	2.081	13.910	0.000	2.653	1.374	5.002
MAOW	15.749	2.978	85.803	0.000	22.713	1.450	3.960
BLOW	52.915	57.000	91.000	5.000	20.582	-0.615	2.532
BODI	62.096	66.667	80.000	0.000	13.418	-1.293	5.370

Long term debt to asset (LTDA) revealed that the mean value of the sampled companies was 11.413. This is the average value of all the sampled firms which implies that non-financial firms in Nigeria source their funds from short-

term debt and other sources, probably due to difficulties in sourcing for long-term debt. The median value was 9.533, the maximum value was 64.046, implying that big firms with track records are able to source long-term debt; the

minimum was a negative balance of -23.673 with a standard deviation of 9.572 from the mean, the skewness is positive, with a long right tail. It has a positive kurtosis, peaked curve of 5.736 higher than 3 and therefore leptokurtic in nature.

The current ratio mean of 1.439 is greater than 1;1, implying that assets are more than liability; the non-financial companies can meet their obligations as at when due; the median of 1.214 is good indicating that the sample companies are not having liquidity challenges; and the variance between the maximum of 19.251 and minimum of 0.0232 which implies that some of the sample companies are big with adequate liquidity, while some are small with liquidity challenges. Profitability was measured by return on assets as well as return on equity. Return on assets revealed an average return of 5.912 per Naira, while return on equity revealed an average return of N14.327 for every one Naira. This implies that it will profit non-financial firms to invest on equity rather than long term loan. The high variance between the maximum profit of 92.390 and a loss of -76.123 led to standard deviation of 22.428 as revealed by return on equity; return on assets revealed a maximum profit of 42.036 and loss of -43.335 and standard deviation of 9.233. Asset structure was examined by tangibility and non-current assets, both proxies revealed substantial tangible and intangible assets for the big firms, while some small firms have as low as 0.101, with platykurtic kurtosis that is

less than 3. Board ownership revealed that the sampled firms have an average of fifteen managers turned board members, with some firms having eighty five and above managers turned board members, this is motivating, while some have no manager turned board member. Block ownership revealed an average of fifty-three institutional owners that possess the might to monitor the activities of managers in the best interest of the shareholders. Though have a negative skewness of -0.615, which implies a long left tail and almost a mesokurtic kurtosis. The average board independence is sixty-two independent directors, with some firms having about eighty independent directors; this is good for the shareholders and the firms in general.

Long term debt to equity (LTDE) revealed the mean value of the sampled companies was -28.632 while its median value was 22.481, implying that outside equity non-financial firms in Nigeria explore other sources to fund their viable investments.

**4.3 Econometric Analysis**

**Model 1:**

$$LTDA_{it} = \beta_0 + \beta_1LTDA_{it}(-1) + \beta_2CUTR_{it} + \beta_3ROET_{it} + \beta_4ROA_{it} + \beta_5TANG_{it} + \beta_6NCAR_{it} + \beta_7DTAX_{it} + \beta_8MAOW_{it} + \beta_9BLOW_{it} + \beta_{10}BODI_{it} + \varepsilon_{it}$$

**GMM Result**

Dependent Variable: LTDA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTDA(-1)	0.287	0.021	13.668	0.000
CUTR	4.994	0.425	11.748	0.000
ROET	0.000	0.000	10.904	0.000
ROA	-0.268	0.054	-4.921	0.000
TANG	-0.061	0.030	-2.015	0.044
NCAR	0.486	0.039	12.515	0.000
DTAX	1.160	0.125	9.311	0.000
MAOW	-0.163	0.058	-2.792	0.005
BLOW	-0.222	0.069	-3.203	0.001
BODI	0.032	0.039	0.828	0.408
Effects Specification				
Mean dependent var	0.269	S.D. dependent var	24.083	
S.E. of regression	26.285	Sum squared residual	500209.800	
J-statistic	42.476	Instrument rank	58.000	
Prob(J-statistic)	0.621			

Source: Author’s Computation Using EViews

**LTDA (-1):** This variable revealed the impact of the lagged value of LTDA on the current level of long-term debt. The coefficient, that is, significant and positive implies that the level of long-term debt in the previous period has a strong effect on the current level of long-term debt. This signifies that firms with a trend of high long-term debt are prone to long-term debt usage as a source of finance..

**CUTR:** Current ratio assesses a firm's capacity to fulfil its short-term commitments with its current assets. The significant and positive coefficient indicates that the firms

with higher current ratios tend to have higher levels of long-term debt. This suggests that firms use long-term debt to finance their short-term liquidity needs. This equally indicates that an increase in the ratio of working capital (Liquidity) of non-financial listed companies in Nigeria positively and significantly increases the capital structure of such companies. This is in agreement with the trade-off theory. This result agrees with prior empirical results which show that liquidity as a measure of firm specific factors is a major driver of capital structure (Atif, 2021; Cevheroglu-Acar, 2018; Utami &

Inanga, 2012). Most specifically, the results did not tally with previous findings of various researchers which reported that liquidity as a measure of firm specific factors has no significant impact on capital structure. (Abdullahi & Alifiah, 2020; Khaled & An-Nisha, 2021).

**ROET:** Return on equity measures a firm's profitability in relation to its equity. The coefficient that is significant and positive implies that profitable firms tend to have higher levels of long-term debt. This could indicate that long-term debt is used to finance profitable investments. **ROA:** Return on assets measures a firm's profitability in relation to its total assets. The negative and significant coefficient suggests that firms with higher return on asset tend to have lower levels of long-term debt. This could indicate that firms with higher profitability have less need for external financing in line with pecking order theory.

**TANG:** Asset tangibility measures the proportion of a firm's assets that are fixed or tangible. The negative and significant coefficient implies that firms with higher asset tangibility tend to have lower levels of long-term debt. This could indicate that firms with more tangible assets have less need for external financing as they can use their fixed assets as collateral for loans.

**NCAR:** Non-current assets measure a firm's investment in long-term assets such as property, plant, and equipment. The positive and significant coefficient suggests that firms with higher non-current assets tend to have higher levels of long-term debt. This could indicate that firms use long-term debt to finance their investments in fixed assets.

**DTAX:** The coefficient of DTAX is positive and significant at 1% level, indicating that debt tax shield has a positive effect on long-term debt. This finding is consistent with the traditional tax advantage theory of debt, which states that the tax benefits from debt increase the optimal debt level of a firm.

**MAOW:** The coefficient of MAOW is negative and significant at 1% level, suggesting that board ownership has a negative impact on long-term debt. This finding is consistent with agency theory, which suggests that managers with high ownership levels have less incentive to take on debt as they face greater downside risk.

**BLOW:** The coefficient of BLOW is negative and significant at 1% level, indicating that block ownership has a negative effect on long-term debt. This finding is consistent with resource dependency and agency theories, which suggest that large block holders may have the power to influence managerial decisions and limit the use of debt.

**BODI:** The coefficient of BODI is positive, but not statistically significant, at 10% level. This suggests that board independence does not have a significant impact on long-term debt. This finding is somewhat surprising as previous studies have found that board

independence is an important determinant of corporate debt policy. However, the lack of significance may be due to the sample size or other unobserved factors that affect the debt policy of firms.

**Arellano-Bond Serial Correlation Test**

Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	-1.066	-218665.964	205144.977	0.287
AR(2)	-0.041	-10337.519	253137.496	0.967

Source: Author’s Computations Using E view

Based on these results, there is no significant evidence of first-order serial correlation (AR(1)) in the data, since the p-value associated with the AR(1) test statistic is larger than the usual significance level of 0.05. However, there is also no significant evidence of second-order serial correlation

(AR(2)) in the data, as the p-value associated with the AR(2) test statistic is also larger than 0.05. Therefore, it can be concluded that there is no evidence of serial correlation in the panel data at either the first- or second-order.

**Model 2**

$$LTDE_{it} = \beta_0 + \beta_1 LTDE_{it}(-1) + \beta_2 CUTR_{it} + \beta_3 ROET_{it} + \beta_4 ROA_{it} + \beta_5 TANG_{it} + \beta_6 NCAR_{it} + \beta_7 DTAX_{it} + \beta_8 MAOW_{it} + \beta_9 BLOW_{it} + \beta_{10} BODI_{it} + \varepsilon_{it}$$

Dependent Variable: LTDE				
Method: Panel Generalized Method of Moments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTDE(-1)	-0.013	0.000	-1569.760	0.000
CUTR	224.744	1.365	164.633	0.000
ROET	-2.034	0.001	-2545.772	0.000
ROA	6.407	0.148	43.210	0.000
TANG	10.928	0.085	128.815	0.000
NCAR	23.599	0.093	253.141	0.000
DTAX	-9.638	0.211	-45.714	0.000
MAOW	23.964	0.024	1014.276	0.000
BLOW	24.346	0.326	74.712	0.000
BODI	9.331	0.089	105.010	0.000
Effects Specification				
Mean dependent var	-10.948	S.D. dependent var		8326.472
S.E. of regression	3517.892	Sum squared resid		8960000.000
J-statistic	43.689	Instrument rank		61.000
Prob(J-statistic)	0.688			

Source: Author’s Computations Using Eview

**LTDE (-1):** This variable represents the lagged value of the dependent variable, LTDE. The negative coefficient suggests that a higher value of the LTDE ratio in the previous period is associated with a lower LTDE ratio in the current period. This finding implies that companies may adjust their long-term debt levels to maintain a desirable debt-to-equity ratio over time.

**CUTR:** The current ratio measures a company's ability to meet its short-term financial obligations. The positive coefficient suggests that higher current ratios are associated with higher LTDE ratios. This finding implies that companies with stronger liquidity positions may be more likely to rely on long-term debt to finance their operations. **ROET:** The return on equity, measures a company's profitability, that is, net income to share-holders equity. The negative coefficient suggests that higher profitability is associated with lower LTDE ratios. This finding implies that companies with higher profitability may be able to finance their operations with internally generated funds and may be less reliant on long-term debt. This result is consistent with previous research, including the study by Al-Malkawi et al. (2021). **ROA:**

The return on asset measures a company's profitability, that is, net income to total assets. The positive coefficient suggests that higher profitability from total assets is associated with higher LTDE ratios. This finding supports the previous finding that higher profitability generally increases the need for long-term debt financing in line with trade-off theory. Additionally, the positive associations between profitability measures (ROA) and LTDE ratio are consistent with prior research which suggests that profitable firms need to take advantage of tax shield by borrowing more to conserve their profits. (Ekreози, 2013). **TANG:** Asset tangibility measures the proportion of a company's assets that are fixed/tangible (e.g., property, plant, and equipment). The positive coefficient suggests that higher asset tangibility is associated with higher LTDE ratios. This finding implies that companies with more tangible assets may be more likely to rely on long-term debt financing, as these assets can serve as collateral for debt holders. This result is consistent with previous research including the study by Al-Malkawi et al. (2021), Chen et al., (2021), Khaled & Anisha, (2021) Choi, (2014) among others.

**Arellano-Bond Serial Correlation Test**

Test order	m-Statistic	Prob.
AR(1)	-0.02	0.98
AR(2)	NA	NA

**Source: Author's Computations Using E view**

Based on these results, there is no significant evidence of first-order serial correlation (AR(1)) in the data, since the p-value associated with the AR(1) test statistic is larger than the usual significance level of 0.05. However, there is also no significant evidence of second-order serial correlation

### **Discussions of Findings**

The descriptive statistic implies that non-financial firms made use of short-term finance and other sources more than equity and long-term debt, being more convenient source of finance as most of the sampled companies do not have liquidity challenges. Furthermore, the result indicates that it will profit non-financial firms to use equity as a source of finance to earn better returns on their investment. Managers are encouraged to become stakeholders, while block-holders are many on the board of non-financial firms to monitor the activities of managers and ensure they act in the best interest of the shareholders.

### **Summary of Findings**

The study used panel generalized method of moments (GMM) estimation technique to investigate the impact of corporate governance and firm-specific factors on capital structure of publicly listed non-financial firms in Nigeria. The study found that all the corporate governance and firm-specific factors, except board independence have significant impact on the firms' long

term debt to asset. The lagged value of long-term debt (LTDA) and current ratio (CUTR) have positive effects on long-term debt, suggesting that firms with a history of high long-term debt and those that use long-term debt to finance their short-term liquidity needs, are more likely to have higher long-term debt levels. Return on equity (ROET) has a positive effect on long-term debt, indicating that profitable firms tend to use long-term debt to finance profitable investments. However, return on Asset (ROA) and asset tangibility (TANG) have negative effects on long-term debt, implying that firms with higher profitability and more tangible assets have less need for external financing. Non-current assets (NCAR) have a positive effect on long-term debt, indicating that firms use long-term debt to finance their investments in fixed assets. Debt tax shield (DTAX) has a positive effect on long-term debt, consistent with the traditional tax advantage theory of debt. Board ownership (MAOW) and block ownership (BLOW) have negative effects on long-term debt, suggesting that managers with high ownership levels and large block holders may limit the use of debt. Board independence (BODI) does not have a significant impact on long-term debt. The GMM results further suggested that all the corporate governance and firm-specific factors are associated with a company's long-term debt-to-equity ratio (LTDE).

Specifically, companies may adjust their long-term debt levels to maintain a desirable debt-to-equity ratio over time. Higher current ratios are associated with lower LTDE ratios, suggesting that companies with stronger liquidity positions may be less likely to rely on long-term debt to finance their operations. Higher profitability (return on equity) is associated with lower LTDE ratios, suggesting that companies with higher profitability may be less reliant on long-term debt. Higher profitability (return on asset) is positively related to long term debt to equity. Asset tangibility and non-current assets are positively associated with LTDE ratios, implying that companies with more tangible and non-current assets may be more likely to rely on long-term debt financing. The debt tax shield has a negative association with LTDE ratios, suggesting that the tax benefits of debt financing may not be significant enough to offset the costs associated with higher levels of long-term debt. Board ownership and block ownership are positively associated with LTDE ratios, implying that board members and large shareholders may have a preference for long-term debt financing. Board independence has a positive association with LTDE ratios, indicating that firms with a higher proportion of independent directors on the board tend to have higher long-term debt to equity ratios.

## **Conclusion**

These results suggest that firms tend to adjust their debt levels towards their target levels, which is consistent with the trade-off theory. The study also confirms the pecking order theory, which suggests that companies prefer to use internal financing sources before resorting to external financing sources such as debt and equity. Additionally, the study found that firms with higher liquidity and profitability tend to have lower debt levels, while those with more tangible assets, higher non-current assets, higher tax shields, higher board ownership, lower board independence, and larger size tend to have higher debt levels. It is worth noting that this study employs a robust methodology and a large sample size of firms across multiple industries. The use of generalized method of moment technique allows for the control of unobserved heterogeneity and potential endogeneity issues, increases the reliability of the results. The findings are consistent with the existing literature on the determinants of debt levels, providing further evidence to support the theoretical frameworks of pecking order theory, debt conservatism, and trade-off theory. The consistency of these findings across various studies and contexts further reinforces their robustness and validity. It is important to note that the study highlights the importance of different firm specific

factors in shaping debt levels, including liquidity, profitability, asset tangibility, non-current assets, and debt tax shield, as well as corporate governance factors such as board ownership, block ownership, and board independence. These findings provide useful insights for firms, investors, and policymakers to better understand the factors that influence debt levels and inform their decision-making processes.

### **Recommendations**

Based on the findings, the following recommendations are made.

(I) Companies should consider their past debt levels when setting current debt targets to ensure they are achieving an optimal balance between tax benefits and costs of financial distress.

ii Companies should monitor their liquidity levels to ensure they maintain a healthy balance between liquidity and debt.

iii Companies should strive to maintain a high level of profitability to reduce their debt burden.

iv Companies should consider asset tangibility when making financing decisions to ensure they are balancing their need for financing with the associated risks.

v Companies should pay attention to non-current assets and tax shields when making financing decisions to ensure they are achieving an optimal balance between tax benefits and financial distress costs.

vi Companies should ensure they have a balanced board structure that takes into account the potential risks and benefits of debt.

vii Firms should embrace a well-established corporate governance factors that enable easy access to fund at lower cost, such as block ownership that attracts resources, connections and other benefits to the firm.

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## Financial Crimes and Financial Inclusion: The Role of Institutional Governance Quality

By

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### Abstract

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*Policy makers have appreciated pivotal role of financial inclusion in improving social cohesion and poverty alleviation. Thus, policies are evolved to advance frontiers of financial inclusion but the increasing level of global financial crimes seems to be impending tides of progress. This study used panel data to investigate the effect of institutional factors on dynamic and causal relationship between financial crime and financial inclusion. The study found evidence of causality between financial crime and financial inclusion. It was also established that institutional factors have significant effect on the relationship between financial crime and financial inclusion. Thus, this study recommends that financial regulators should continue to strengthen their economies anti-money laundering and corruption fighting strategies by way of strengthening enforcement of existing legal frameworks, and also exploring international collaborations.*

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**Keywords:** Crimes, Financial, Inclusion, Institutional

### 1.0 Introduction

The importance of financial inclusion has been highly acknowledged by economies as veritable instrument for capital formation. The importance of financial inclusion is not only viewed from prism of capital formation, but also embraced as economic strategy for facilitating transfer of wealth. Thus, governments are evolving policy measures aimed at attracting citizens into dragnet of formal financial system. Arun and Kamath (2015) viewed financial inclusion as a

situation where people have access to financial services and products of good quality which are affordable and convenient with dignity for all clients. Also, financial inclusion is seen as providing access to an adequate range of safe, convenient and affordable financial services to the disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who are under served or excluded from the formal financial sector. Additionally, it is

about making a broader range of financial services available to individuals who currently only have access to basic financial products. Financial inclusion can also be defined as ensuring access to financial services at an affordable cost in a fair and transparent manner. Financial inclusion, henceforth, (FI) is conceived as the process of broadening the accessibility of financial services for households and firms. Alternatively, Aduda and Kalunda (2012) defined FI broadly as the process of availing an array of required financial services, at a fair price, at the right place, from and time and without any form of discrimination to all members of the society. Financial inclusion could be influenced by varying factors that may be financial or non-financial. Therefore, people interpret information embedded in such factors to make decisions accordingly. One of such factors that may affect financial inclusion is the level of economic and financial crimes incidences in the financial system. Dobrowolski and Sułkowski (2020) noted that constituents of economic and financial crimes include money laundering, corruption, cybercrime, fraud, drug trafficking and terrorism financing. Despite laudable economic policies, evolving monitoring frameworks and structural reforms, financial crimes have become clog in wheels of achieving set goals. Economic and

financial crimes have constituted a great challenge bedeviling firms, financial system and countries economic engagements. Financial crimes do not only result in financial lost but could also lead to multiplier consequences on deterioration of economy credibility and integrity, which can lead to public distrust. Economic and financial crimes pose threat to investors, creditors and employees, and reputation of companies due to financial losses associated with such crimes (Craja et al. 2020). This distrust may culminate in sending negative signal to economic agents and result in financial exclusion.

Banks provide access to financial services such as savings, payment and credit services through branches and recently through technological enabled services carried out by agents. But these banks are profit oriented organisation that take decision considering cost and benefit analysis. Thus, most of the platforms for providing these financial services are largely found in urban areas with high profit propensity. In contrast, coverage of rural areas tend to be less profitable but expensive to operate. Hence, these could result in financial exclusion of people with limited or no access to bank services. Technological innovations that present opportunities for expanding access to

financial services have boosted financial inclusion agenda. These innovations cover a range of activities, including offering credit, processing payments, issuing currencies and managing assets, to mention a few. Despite the expansion of accessibility to financial services, there is large percentage of population that is still financially excluded. Financial inclusion makes it possible for individuals to save for the future, invest in education, train their children, and launch businesses which contribute to poverty reduction and economic growth (Bruhn & Love, 2014; Ozili, 2018).

Financial crimes assumed a disturbing trend in recent times despite varying mechanisms being developed to prevent and detect economic and financial crimes, criminal minded elements have continued to evolve sophisticated channels to perpetuate economic and financial crimes. Financial crimes affect financial inclusion through channels related to human, social and institutional factors, which can create climate of insecurity resulting to additional cost. Despite the threat of high incidences of economic and financial crimes, the secrecy, illegality and indirect damages characterizing it has made assessing the real losses difficult. Furthermore, financial inclusion is relatively an emerging area in the financial literature. Thus, there seems to be

limited empirical literature that explored the links between financial inclusion and other socio-economic factors. Studies on financial inclusion largely focused on the determinants of financial inclusion and its effects on income inequality and poverty reduction. Thus, this study becomes imperative in order to explore the effect of institutional quality on the relationship between financial crimes and financial inclusion. To this end, this study hypothesizes that institutional quality has no significant relationship with financial crimes and financial inclusion.

## **2.0 Literature Review**

Mohammed, Samuel, Solomon and Amarah (2022) assessed the effect of anti-money laundering regulations on banking sector stability in Africa. The study used panel data of 51 African countries over the period of 2012 to 2019. The study used two-staged Generalised Moment Method (GMM) for estimation and established that AML regulations significantly and positively affected stability of banking sectors in African countries. This suggests that if there was high effectiveness or low effectiveness of the AML regulations, it would still have a positive impact on the stability of the banking sector of the country. Malakouti (2020) analysed the relationship between counter-terrorism financing regulations and financial inclusion

and established that financial exclusion is a focal point which results in ineffective counter-terrorism measures that are caused mostly by the banking system. The financial exclusion also leads to counter-productive counter-terrorism financing through a low risk-appetite, de-risking, de-banking, financial exclusion, and using unregulated or less regulated and supervised financial systems.

Yousaf (2021) assessed the effect of institutional legal and political factors on financial inclusion. The study used data collected for 64 former colonies in Africa, using 2SLS, DOLS and FMOLS. After the analysis, it established that legal and political institutions significantly affect the degree of FI across countries. In another development, Bakari, Idi and Ibrahim (2018) explored how institutions affected the degree of financial inclusion. Although the study is limited to African countries, Eldomiaty, Hammam and El Bakry (2020) found that institutions impact certain level of FI across other countries. This can further be proved by Alber (2019) who found that per capita GDP, GDP growth and interest rates were significant factors of FI in 145 countries.

Barik and Lenka. (2022) examined the impacts of financial inclusion on corruption control in selected upper-middle and lower-middle income countries. Using cross-country

annual data from 2004 to 2018, the study applied fixed effect, random effect, panel corrected standard errors, feasible general least square and 2SLS (two-stage least square regression) models to evaluate the impacts of financial inclusion on control of corruption across all samples from upper-middle and lower-middle income countries. Findings proved that upper-middle income (UMI) countries demonstrated that a basic level of financial inclusion has no impact on corruption control, whereas higher intensification of financial inclusion beyond the basic level positively impacts on it. Similarly, the findings from lower-middle-income (LMI) countries indicated that financial inclusion up to a certain threshold level helps to control corruption, whereas financial inclusion above the threshold level negatively impacts the control of corruption. Sharma and Paramati (2020) conducted an empirical study on 140 sample countries to know the impact of financial sector development on the control of corruption. Their findings depicted that the development of the financial sector plays a significant role to control the growth of corruption across the full sample countries, low- and lower-middle-income countries and upper-middle and high income countries. Ajide (2020) assessed the effect of financial inclusion on corruption

control in African countries for the period of 2005–2016. The study established that financial inclusion intensified the control of corruption. However, it has a negative impact on the control of corruption because of weak institutional factors present in African countries.

### **2.1. Theoretical Framework**

The theoretical foundation of the study is anchored on the ‘sand the wheels’ theory. This theory holds that the presence of corruption can adversely affect the financial sector development (Cooray & Schneider, 2018). It further asserted that inadequate supervisory frameworks, insider trading, large-scale regulation and the absence of transparency, can lead to corruption practices which further impede the financial sector’s development (Song et al., 2021). This suggests that in the context of financial inclusion, it can result in the problem of adverse selection and moral hazard (Cooray & Schneider, 2018); the financial resources are diverted that leads to inefficient allocation of money. Again, due to lack of transparency and supervision in the system, misallocation of financial resources raises the volume of non-performing assets which further damages the financial stability of the country.

### **3.0 Research Methodology**

To examine the role of institutional quality on the effect of financial crimes on financial inclusion, a sample of 103 developing economies over the period 2012 to 2020 was taken. The choice of countries for this study was largely influenced by availability of data. To establish the effect of financial crimes on FDI inflow, the study applied Autoregressive Distributed Lag (ARDL) model employed by Pesaran, Shin and Smith (1996) and Pesaran, Shinb and Smith (2001) for estimation. The stationary properties of the data used in the study indicate that they are stationary at level I (0) and first difference I(1). Thus, the estimation technique is appropriate as it can be employed to estimate explanatory variables that are stationary at either levels I (0) or first difference I (1) as noted by Pesaran, Shin and Smith (2001). The ARDL co-integration technique (bound test) is conducted to enable the co-integration relationship to be estimated by the ordinary least square (OLS) after determining the lag order of the model. The model can also be applied to estimate both the long run and short run parameters of the models when co-integration exists. Pesaran and Shin (1995) and Pesaran *et al.* (2001) noted that the ARDL models tend to yield consistent estimates of the long run coefficients that are asymptotically normal

regardless of whether the underlying regressors are purely  $I(0)$ , purely  $I(1)$ , or combination of both. This suggests that the ARDL avoids the pre-testing of variables to identify the order of integration of the underlying variables. Additionally, the ARDL method avoids the larger number of specification to be made in the standard cointegration test.

Financial inclusion was employed as the dependent variable drawn from Global Findex database, while the explanatory variables institutional quality is represented by Worldwide Governance Indicators (Control of Corruption, Political Stability and Absence of

Violence and Regulatory Quality) developed by Kaufmann et al. (1999). Other measures of Worldwide Governance Indicators were not used in this study due to multicollinearity problem. Financial crimes are measured by Basel AML composite index Basel Anti-Money Laundering (AML) Index, which was published by the Basel Institute on Governance (Basel Institute). The study controlled size of economies measured by log of Gross Domestic Product (GDP) and sourced data from World Bank's World Development Indicators (WDI) data base (World Bank, 2020). The model of estimation is expressed in functional linear form as:

$$FIN_t = f(AML, CCRP_t, PSTAB_t, REGQ_t, LGDP) \dots \dots \dots (1)$$

Post estimation diagnostic test for stability of the model test based on CUSUM and CUSUM of Square were conducted. The

ARDL model which is transformed into natural logarithmic is specified, thus:

$$\begin{aligned} \Delta FIN_{t-1} = & \alpha_0 + \beta_1 FIN_{t-1} + \beta_2 AML_{t-1} + \beta_3 CCRP_{t-1} + \beta_4 PSTAB_{t-1} + \beta_5 REGQ_{t-1} \\ & + \beta_6 LGDP_{t-1} + \sum_p \beta_7 \Delta LFIN_{t-1} + \sum_p \beta_8 \Delta AML_{t-1} + \sum_p \beta_9 \Delta CCRP_{t-1} \\ & + \sum_p \beta_{10} \Delta PSTAB_{t-1} + \sum_p \beta_{11} REGQ_{t-1} + \sum_p \beta_{12} \Delta LGDP_{t-1} + \varepsilon_{it} \end{aligned}$$

**Where:**

- FIN: Financial Inclusion Index
- AML: Basel Anti-Money Laundering (AML) Index
- CCRP: Control of Corruption
- PSTAB: Political Stability and Absence of Violence

- REGQ: Regulatory Quality
- LGDP: Log of Gross Domestic Product
- $\Delta$  = represents the first difference operator
- $\varepsilon_{it}$  = Vector of the error term

To determine existence or otherwise of co-integration in the variables, bound test was

conducted. According to Pesaran et al. (2001), the regressors are assumed to be integrated in order zero I(0) or are integrated in order one I(1). The decision criteria is that if the F-statistic is less than I(0) bound, the null hypothesis (no co-integration) cannot be rejected. Conversely if the F-statistics exceeds the I(1) bound the null hypothesis is rejected.

**4.0 Results and Discussion of Findings**

The results of descriptive statistics, serial correlation, co-integration, and stability are presented in this section. The result of descriptive statistics shows the mean, standard deviation, skewness, and kurtosis statistics of the coefficients.

**Table 1: Descriptive Statistics**

	FIN	AML	LGDP	CCRP	PSTAB	REGQ
<b>Mean</b>	21.6562	5.4934	25.1597	19.1337	49.5122	57.9431
<b>Median</b>	21.5346	5.4600	24.8717	8.9615	47.8673	60.1896
<b>Maximum</b>	26.9605	8.4937	30.5406	1289.1465	99.5238	100.0000
<b>Minimum</b>	13.9398	1.7787	19.9658	6.0894	0.0000	0.0000
<b>Std. Dev.</b>	2.1195	1.1271	2.1035	110.9330	27.2199	27.0477
<b>Skewness</b>	-0.0436	0.0342	-0.0160	10.8668	0.0971	-0.2729
<b>Kurtosis</b>	2.9443	2.7169	2.7591	119.1917	1.8722	2.0558
<b>Obs.</b>	824	824	824	824	824	824

The result of descriptive statistics depicted in Table 1 showed the highest standard deviation exists in CCRP and indicates that it has

highest variability. The result also showed FIN, LGDP and REGQ are negatively skewed.

**Table 2: Correlation Matrix**

	AML	LGDP	CCRP	PSTAB	REGQ
<b>AML</b>	1				
<b>LGDP</b>	-0.0824	1			
<b>CCRP</b>	0.1147	-0.0631	1		
<b>PSTAB</b>	-0.0302	-0.0072	-0.0230	1	
<b>REGQ</b>	-0.0938	0.0523	-0.0858	0.7250	1

The correlation matrix shown in the Table 2 indicated that the highest correlation exists between REGQ and PSTAB with a value of 0.7250. This indicates multi-collinearity problem does not exist among the independent variables as all the values are below the

threshold of 0.8 for existence of high multi-collinearity problem between independent variables as suggested by Rumsey (2007). Thus, variables employed in the study are statistically appropriate for inclusion in the model used for estimation

**Tables 3:** Augmented Dickey-Fuller (ADF) Unit Root Tests

Variable	t-Statistic	Order of Integration
FIN	-3.6524	I(0)
AML	-2.2365	I(0)
LGDP	-6.3122	I(1)
CCRP	-3.4251	I(1)
PSTAB	-6.4635	I(0)
REGQ	-5.5243	I(1)

**Source:** Extracts from E-views Output

The time series properties of the variables for existence of unit root were examined using Augmented Dickey-Fuller (ADF) and P unit root test. The results of the ADF tests as

shown in Table 3 indicated that all the variables used in the study are integrated in order I(0) and I(1), that is stationary at levels and first difference.

**Table 4: ARDL bounds test for Co-integration**

ARDL Bounds Test		
F-statistic 3.9754 AIC (Lag 1)		
Bounds Significance Level	I(0) Bound	I(1) Bound
10%	2.487	3.557
5%	2.897	3.275
2.50%	3.287	3.527
1%	3.777	3.970

**Source:** Extracts from E-views Output

The results for the ARDL bounds test for co-integration as illustrated in Table 4 showed the F-statistics of 3.9754 is higher than the I (1) upper bound value of 3.275 at 0.05 level of significance. Thus, there is co-integration

relationship between the variables estimated. Thus, the Error Correction Model (ECM) was specified. The result of lag length criteria test using AIC indicates a lag of 1 is appropriate.

**Table 5: Results of Long-run estimation using ARDL approach**

Variable	Coefficient	t-Statistic	Prob.
AML	-0.1707	-2.2848	0.0225
LGDP	0.8290	19.5137	0.0000
CCRP	-0.0002	-0.2725	0.0253
PSTAB	-0.0093	-1.3583	0.0147
REGQ	0.0004	0.0694	0.0447
C	2.1724	1.7860	0.0544

The long-run ARDL estimation results in Table 5 for establishing the effect of institutional quality on the interactive effect of financial crimes on financial inclusion indicated that AML, CCRP and PSTAB

significantly negatively affects FIN. Conversely, the long-run estimates show long run positive significant of LGDP and REGQ on FIN.

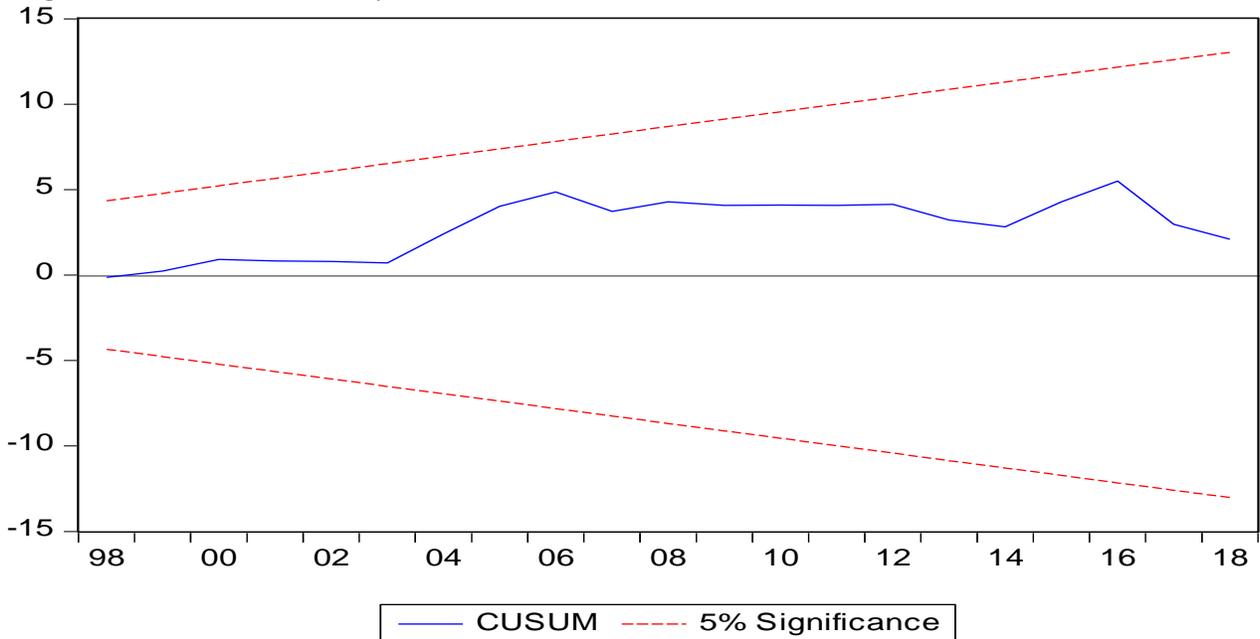
**Table 6: Results of Short-run ECM Estimation**

Variable	Coefficient	t-Statistic	Prob.
D(AML)	-0.1621	-5.0929	0.0000
D(AML(-1))	-0.0636	-2.2708	0.0234
D(LGDP)	0.8067	27.2162	0.0000
D(LGDP(-1))	0.1423	3.6299	0.0003
D(CCRP)	-0.0001	-0.2724	0.7854
D(PSTAB)	-0.0032	-1.9564	0.0507
D(PSTAB(-1))	0.0020	1.7294	0.0841
D(REGQ)	0.0036	2.0865	0.0372
ECM(-1)	-0.3723	-12.4251	0.0000

The Result of short-run estimation in Table 6 indicated that the outcomes did not differ from the long-run estimation as AML, CCRP and PSTAB are statistically negatively significant. Thus, these suggest that the variables lead to decrease in FIN. Furthermore, the negative coefficient of the error correction term (ECM) indicated that 37 percent deviation from the

long-run equilibrium level of financial crimes to financial inclusion is corrected for annually. The result of post estimation model stability test using CUSUM indicates it lies within the 5 percent significance level as presented in figure 1. Thus, the model used for the study is stable and can be applied for estimation.

**Figure 1: Result of Stability test**



**Source:** Extracts from E-views Output

**5.0 Conclusion and Recommendations**

The study examined the effect of public debt management strategies on Nigeria debt profile for the period 2012-2020, using the Autoregressive Distributed Lag (ARDL) model for estimation. In the study, financial inclusion was measured by financial inclusion composite index, while institutional quality is represented by control of corruption, political stability and absence of violence and regulatory quality. Financial crimes are measured by Basel AML composite index Basel Anti-Money Laundering (AML) Index, while the control variable size of economies was measured by log of Gross Domestic Product (GDP). The long-run estimation

reported AML, CCRP and PSTAB significantly negatively effects on FIN. Conversely, the result showed that LGDP and REGQ positive significant affected FIN. The result further indicated that institutional quality has significant effect on the relationship between financial crimes and financial inclusion. Thus, it is recommended that financial regulators should continue to strengthen their economies and anti-money laundering and corruption fighting strategies by way of strengthening the enforcement of existing legal frameworks, and also exploring international collaborations.

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## **Risk-Taking Propensity and Export Performance of Manufacturing SMEs in Kano, Nigeria**

By

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### **Abstract**

*This study examined the influence of risk-taking as one important dimension of entrepreneurial orientation on export performance of SMEs in Kano, Nigeria. A survey design was conducted and structured questionnaire was used in the data collection. A total of 110 usable responses were received from the owners /managers of exporting manufacturing SMEs in Kano. Partial Least Squares-Structural Equation Modeling (PLS-SEM) was employed in the data analysis. The result of the analysis showed that risk-taking has significant effect on export performance of manufacturing SMEs. The managerial implication of this study indicated that risk-taking is a significant internal determinant of export performance. Thus, the study recommends that management of SMEs should take calculated risk by always investigating the result of various prospective investments and predicts scenario of likely outcome and thus, recognize key risk factors and their causal sources and then tries to manage or reduce these factors in international arena. While the extreme risk that involves reckless decision making that management identified should be avoided.*

**Keywords:** Entrepreneurial orientation, risk-taking, SMEs, export performance, Resource Based View

### **1. Introduction**

The economic development of emerging countries is heavily dependent on small and medium enterprises (SMEs) (Jin & Hurd, 2018). SMEs generate employment opportunities, accelerate innovation and rejuvenate market competition (Dominguez & Mayrhofer, 2018). Export plays an important role in country's economy, influencing the level of economic growth, employment and the balance of payments (Ahmad et al., 2017; Fatemah & Qayyum, 2018). Export performance is today one of

the most widely used measures of a firm's success, due to the globalization and market liberalization processes. SMEs which have risk-taking propensity are more likely to export successfully, and more likely to generate growth from exporting than risk-averse firms. European SMEs that export grow more than twice as fast as those that do not, while 'internationally active' SMEs are three times more likely to introduce products or services that are new to their sector than those which are entirely domestic in

orientation (Mbs & Mejean, 2010). There is therefore, a potential rationale for policy interest in exporting and risk-taking at the firm level. Doing business internationally becomes a crucial element of company survival and growth, but it also involves higher risk.

However, the contribution of the SMEs to total exports remains very low and changes only very little with less than 1% increase over a five-year period from 7.27% in 2013 to 7.70% in 2017 (SMEDAN & NBS, 2013; Chiemela et al., 2020). This compares very poorly with the average performance of the sector in Organization for Economic Co-operation and Development (OECD) and non-OECD countries. Despite' government various efforts to grow exporting SMEs, the growth performance of Nigeria's SMEs' exports is perceived to be very slow ( Kromtit et al., 2017). For instance, the first phase of African Growth Opportunity Act (AGOA) lasted from October 2000 to September 2008. During this period, Nigeria's total exports which stood at US\$5.5 billion in 1999 rose to an all-time-high value of US\$34.8 billion in 2008, representing a 53.3% increase between 1999 and 2008. On the one hand, during the second phase, which ended in 2015, Nigeria's overall export to the USA declined from US\$13.6 billion in 2009 to US\$2.0 billion in

2015, representing a decline of about 85%. On the other hand, the USA's overall export to Nigeria, which stood at US\$0.7 billion in 1991 increased to US\$ 2.3 billion, representing about 22.9% increase during the first phase of AGOA. Likewise, the USA's overall export to Nigeria increased by 70% during the second phase of AGOA (Osabohien et al., 2021).

SMEs from emerging economies face substantial challenges in an attempt to enter global markets; they face liabilities of newness as they are young/ new, partly small and somehow without a history of reliable performance (Senik et. al, 2014). Similarly, they suffer from not only liabilities of foreignness, country-of-origin effects, without operational history or established brands, such firms are not only foreigners, whose products may suffer from perceived negative country-of-origin effects with respect to quality and reliability and market indifference that sometimes accompany technological innovations, which is further compounded by assumptions about the low-technological nature of products from emerging economies (Jain, et al., 2015; Mathews 2006).

Islam et al. (2016) found that the industry faces a number of challenges that may create a significant level of risky business

environment, for example, unskilled workers, improper infrastructure, and energy crisis, high cost of capital, high tax rate, intricate social compliance, political crisis, lack of market and product diversification, compliance pressure from buyers and lack of integration. Given the diverse range of risks faced by the industry, yet it remains unsure how the exporting firms manage the risks. The rather bad export performance of Nigerian SMEs' exporters can be explained by a number of factors, one of which is assumed to be the low level of risk taking propensity, which is one of the three major dimensions of entrepreneurial behavior (Keh et al., 2002). As export markets are by definition more hostile than domestic one, and they differ to a certain level in market dynamism and diversity, it is usually necessary to take more risks when exporting than when doing business only in the domestic market. Hostile environments, as are most international markets in comparison to the domestic one, speak in favor of using the entrepreneurial strategy (involving higher risk-taking willingness). Therefore, risk-taking initiatives should be more necessary in order to achieve good results in hostile markets. Or, in other words, managers who dare to take more risks take actions that are more suitable and perform better. Abby and

Slater (1989) found that management which has an international vision, favorable perception and attitudes toward exports, is willing to take risk and has the capacity to engage positively in export activities. Such exporter is likely to lead a company to export success. Therefore, it was expected that SMEs that have better export performance would also have a higher level of risk taking propensity. Risk taking as dynamic capability underpin the recent advances in international entrepreneurship, which suggest that imaginative inertial nature of established routines and new ventures hold an advantage in developing capabilities during internationalization (Ren et al., 2015).

Scholarly view has shown that inability to identify the successful or unsuccessful strategies for international market participation has remained major challenge for most SMEs (Sahoo & Yadav, 2017). Export industry faces a number of challenges that may create a significant level of risky business environment, for example, unskilled workers, improper infrastructure, and energy crisis, high cost of capital, high tax rate, intricate social compliance, political crisis, lack of market and product diversification, compliance pressure from buyers and lack of integration. Given the diverse range of risks faced by the industry, it remains

unpredictable how the exporting firms manage the risks. No study so far has examined this issue (Islam et al., 2016).

Prior studies revealed that the risk-taking propensity has a positive impact on SMEs performance; in China, (Gou & Jiang, 2020) and Tanzanian (Okangi, 2019), while some studies found inconsistencies in the association between risk-taking and export performance. For example, in Bagladesh, Hossain and Azmi, (2021) and some studies found no significant effect of risk-taking on export performance (Younas & Zafar, 2019; Rezaei & Ortt, 2018; Kraus et al., 2018). Due to this mixed findings in the management and entrepreneurial literature, there is knowledge gap of understanding the importance of risk taking propensity for exporting SMEs with regard to Nigerian environment. Thus, this study examines the effect of risk-taking on export performance of the SMEs in Kano, Nigeria.

## **2 Literature Review**

### **2.1 Export performance**

Cavusgil and Zou (1994) posited export performance as "the extent to which a firm accomplishes its financial and key intention and subjective actions for exporting" (Laitinen, 2002). Reijonen & Komppula, (2007) characterized performance as "the capacity of an item to create results in a

measurement decided earlier, in connection to an objective". Shamsuddoha and Ali (2006) described the export performance as "the degree to which a company's exports are accomplished.

The critical issue in the mode of evaluating export performance is the subject of objective measure against subjective measure, where some scholars subscribed to objective measures, while some prefer subjective measures. For instance, scholars such as Katsikeas *et al.* (2000) argued that even though subjective examination of export performance might give rise to some problems, it appears to be more valid in determining long term aspect. More importantly, managerial decision making and action can be easily influenced by it. However, Zou *and Stan* (1998) created a measure of export performance that discussed the problem of objectivity and subjectivity of export performance. They came out with multidimensional scale named 'EXPERF', and the area of interest is export venture. The dimensions are financial, strategic and satisfaction with export venture's performance. This study adopted this Zou *et al.*, (1998) called EXPERF.

### **2.2 Risk taking**

Risk-taking is defined as "the degree to which managers are willing to make large

and risky resource commitments i.e. those which have a reasonable chance of costly failures” (Miller and Friesen, 1978). Risk is the fundamental aspect of the entrepreneurial process; entrepreneurship is an uncertain activity (McMullen, & Shepherd 2006). It is the extent at which managers are ready to commit a large and risky resource into a project, which may constitute a reasonable change or expensive failure. Yet, the risks are calculated risk, and extreme risk that involve reckless decision making that management identified is usually avoided (Ketchen & Short, 2012). Basically, entrepreneurial firms operate within hesitant environment, especially, when entering with new market into new products and they undergo testing, failure tolerance and naturally working under risky atmosphere. There is risk-taking when a substantial number of resources are invested into a project with uncertain outcomes and a potentially high prospect of failure (Grande *et al.*, 2011). Generally, management investigates the result of various prospective investments, predicts scenario of likely outcome, recognize key risk factors-their causal sources and then tries to manage or reduce these factors (Dess & Lumpkin, 2005; Wales et al., 2020).

Risk taking proclivity might lessen strategic stagnation and give rise to superior

performance. Three types of risk that manager experience; business risk, financial risk and personal risk (Games, & Rendi, 2019). Business risks are the risks that are associated with uncertainty and likelihood of failure. A good example of business risk is committing to unproven technologies or entering untested market. High leverage from borrowing and heavy commitment of resources characterized financial risk, and personal risk is the risk that manager takes for granted in taking preference for any strategic decision. Hostile environments, as are most international markets in comparison to the domestic one, speak in favor of using the entrepreneurial strategy (involving higher risk-taking willingness). Moreover, marketing theory recognizes as whole set of so called foreign transactional risks: general stability risk, which refers to management uncertainty about the future viability of the host country’s political system, ownership/control risk, which reflects the management uncertainty about host government actions affecting the entrant’s ownership or control position, operations risk, which is defined as a possibility of sanctions that could constrain entrant’s operations in the host country, and transfer risk that refers to the limitations of entrant’s ability to transfer capital out of the host country (Leko-Simic & Horvat, 2006).

Therefore, risk-taking initiatives should be more necessary in order to achieve good results in hostile markets. In other words, managers who dare to take more risks, take actions that are more suitable and perform better. Risk taking in this study is the capacity of the firms to view the foreign market as opportunity to be pursued despite the volatility of the perceived success (Adesanya et al., 2018).

### **2.3 Risk-taking and Export Performance**

In order to identify the gap in the literature, this study carries out empirical review on the relationship between these two constructs (risk-taking and export performance). Cannavale and Nadali (2019) conducted a study to examine risk-taking impact on firms' performance in the Iranian knowledge based industry. An empirical analysis of data from 155 Iranian knowledge-based firms was performed by employing the PLS method of structural equation modeling. Research revealed the positive and significant effects of risk-taking on firm performance. However, the study was conducted in different context and moreover, the sample was not the owners/managers participating in export. Hence, thorough examination of effect of risk-taking on export performance could have produced different result. Moreover, Okangi (2019) analyzed the

impacts of risk-taking, on the profitability growth of local Tanzania's construction firms. They carried out a survey to 132 Tanzanian construction firms using a questionnaire. With the help of STATA 13.0 Software, data collected was analyzed by using a multiple regression analysis. The study found the positive impact of the risk-taking dimension on firms' profitability growth of 132 Tanzanian firms. Different context and different sample could have produced different findings

In addition, Ajayi (2016) conducted a study to find the impact of risk-taking on export performance of 235 Nigerian SMEs. Having employed a quantitative research design, the outcome of the research revealed a positive and significant relationship between risk-taking and export performance. Even though this study was conducted in the same context with the current study and using export performance as dependent variable, the study focused on agricultural sector not the owners/managers of SMEs that are dealing with textiles/clothing, food, beverages, plastic, chemicals, leather and shoes (the product mentioned are within the groups of labour intensive and light manufacturing goods).

However, there are studies with contrary findings; some prior studies found negative and insignificant effect of risk-taking on firm

performance. Hughes and Morgan (2007) examined the impact of risk-taking on performance of young high-technology, having used a mail survey to collect and analyzed the data with multiple regression, risk-taking has a negative effect on firms' performance. Nevertheless, the sample of the study focused on high-technology firm. Owners/managers of SMEs that are participating in export could have shown significant effect.

Similarly, Yang and Ju (2018) conducted their study on EO and firm performance. They selected 153 new ventures as samples and used product quality as mediating effect between the EO and performance relationship. The study revealed that the risk-taking decreases product quality, which impacts on the firms' sales performance. Nonetheless, the study did not use the sample of SMEs participating in export. Besides, the study was conducted in China and moreover, satisfaction or strategy as non economic could have been used as performance measure. Furthermore, Kraus *et al.* (2018) having employed a structured literature review to explain the relationship between risk-taking and firm performance, they found no direct influences of risk-taking on firms' financial performance. This is a qualitative study. Quantitative study could have

collected much data from larger sample. Moreover, financial measure as a performance measure might not be sufficient, subjective measure should have been included to capture the entire attributes of performance.

Also, Chin *et al.* (2016) examined the unique links and complicated interrelationships between the individual risk-taking and firm performance. Using structural equation modeling, the study found that during reverse internationalization, *risk taking* is not statistically associated with performance. However, the study was carried out from different context from the current study. Study from developing economy, in a turbulent/dynamic environment could have shown statistical significant effects. Also, Hossain and Azmi (2021) examined the impact of risk-taking on export performance. The study employed a cross-sectional survey to collect 339 primary data and analyzed the data with partial least squares (PLS-SEM) technique. The findings of this study revealed that risk-taking dimension does not affect export performance. Sample from developing economy like Nigeria could have produced significant effect on export performance.

In a nut shell, prior studies confirmed the effects of risk-taking on export performance of SMEs, but most of these studies were

carried out in different context with peculiar internal/external environmental factors. Besides, the statistical tools employed were not appropriate, and sample selected differ from the owners/managers participating in export. Conducting a thorough quantitative research is also important based on the fact that most of the prior studies reviewed in this study were to be found negative, insignificant with a lot of discrepancies in the effect of risk-taking on export performance. These mixed findings have created a knowledge gap. Hence, this study proposes a null hypothesizes that:

*Risk-taking does not have significant effect on export performance of SMEs in Kano*

#### **2.4 Theoretical Model**

The underpinning theory that serves as a foundation, support or basis for this study is Resource Based View (RBV). RBV anticipates a firm to be an embodiment of distinctive package of concrete and intangible resources, such as assets-resources, capabilities-resources, processes-resources, management's attributes, information-resources and knowledge-resources that are controlled by a firm (Barney, 1991).

RBV perceives firm definite resources such as asset and capabilities as the stimuli of an organizational strategy (Kropp *et al.*, 2006).

Managerial skills and knowledge determine the ability and capability that culminate better organizational performance (Song, Di Benedetto, & Nason, 2007). Therefore, risk-taking, can be viewed as resources which have potentials to enhance export performance of SMEs. Internal capabilities development aided born global firm to succeed in foreign market (Knight & Cavusgil, 2004). Over the years RBV has become a critical driver of firm performance (Eisendhardt & Martin, 2000). RBV also helps to explain how knowledge and capabilities are developed and leveraged within an enterprise. Dhanaraj and Beamish (2003) contended that in more rigorous building of firm performance, RBV should be the paradigm to understand strategic approaches. RBV is appropriate to explain the relationship between risk-taking and export performance since firm's market operation is an internal source of capability that gives rise to firm's competitive advantage (Cadogan *et al.*, 2009).

Moreover, risk-taking supports the RBV theory which assures the competitive advantage for firms' growth and success. Presently, the Nigerian industry is complex, turbulent, and globalized context. Several studies claimed the industry's challenges (innovative products and supply chain,

networking and communication, product and market diversification, modern technologies, and social compliance) need to exert their expected performance in foreign markets (Chowdhury et al., 2018; Barua et al., 2018). It has become crucial to identify key strategic factors that affect and increase growth in the international markets and contribute to sustainable export performance.

### 3 Methodology

This study employs survey instrument based on measures used in the past literature. Risk-taking’ measure is adapted from the measures of Saini and Martin (2009) for export business of SMEs. All items are measured using a 7-point Likert scale, ranging from “totally disagree” to “totally agree”. Table 3 depicts the measures of risk-taking.

**Table 3.1: Measures of Risk-taking**

Construct	Code	Survey items	Sources
Risk-Taking	RIS01	Generally, in our firm we play it safe when making strategic moves	Saini and Martin (2009)
	RIS02	Most consider our company as conservative in business approach	
	RIS03	Our company is generally more risk taking than most	
	RIS04	The top management team in our firm is daring	
	RIS05	In our firm, the culture rewards taking chances	
	RIS06	In our company, when the situation calls for it, we are willing to take risks	
	RIS07	Our firm is willing to make major strategic decisions even if the potential outcome could be negative	

Moreover, the nine items adapted from Zou *et al.*, (1998) are used to measure SMEs’ performance in this study because they reflect economic and non economic factor

that could easily show the performance of SMEs. These nine items adapted from Zou *et al.*, (1998) called EXPERF scale are shown in the Table 3.2

**Table 3.2: Measures of Export Performance**

Construct	Code	Survey items	Sources
Export Performance	FIN01	This firm has been very profitable	Zou <i>et al.</i> , (1998)
	FIN02	This firm has generated a high volume of sales.	
	FIN03	This firm has achieved rapid growth.	
	STG04	This firm has improved our global competitiveness.	
	STG05	This firm has strengthened our strategic position.	
	STG06	This firm has appreciably increased our global market share.	
	SAT07	The performance of this firm has been adequate.	
	SAT08	This firm has been thriving.	
	SAT09	This firm has fully met our expectation.	

### 3.1 Population and Sample

Based on the records from Nigeria Export Promotion Council (NEPC), the number of officially registered SMEs is negligible. While the fast majority of SMEs carry out exporting activities unofficially. Hence, there is no population sampling frame to draw C<sup>2</sup>

Where SS = Sample Size, Z = the Z-values, P= Proportion, C= margin of error  
Where SS = Sample Size, Z = the Z-values, P= Proportion, C = margin of error  
Z- value at 95% confidence interval = 1.96; P = 0.5; Margin of error = +/-0.05  
$$SS = \frac{1.96^2 * (0.5) * (0.5)}{0.05^2} = 384$$

Therefore, the sample size of the study is 384

### 3.2 Data Analysis

The study employs PLS-SEM to assess and test the hypotheses. The usage of PLS has been popular with information system more than any other discipline (Goodhue et al., 2007). The data analysis procedure using PLS follows these steps; these two -step processes are (1) the assessment of measurement model and (2) the assessment of a structural model (Henseler et al., 2009)

#### 3.2.1 Assessment of Measurement Model

In this study, the model estimation delivers the empirical measures of the relationship between the indicators and the constructs (measurement model). The PLS –SEM algorithm in the first stage all the constructs scores are estimated to determine items reliability, internal consistency, convergent

representative sample. The study employed statistic approach to calculate sample Size for unknown population. The infinite formula for determining sample is used to determine a sample size for this study. The sample formula is by Cochran (1977).  $SS = \frac{Z^2 * (p) * (1-p)}{C^2}$

validity and discriminant validity. Similarly, there was examination of the outer loading of each construct’s measure in Figure 4.2 in order to have assessment of individual items reliability (Hair et al., 2013). The indicators with outer loadings between 0.40 are retained, while some items below the threshold of 0.40 are deleted (Hair et al., 2013). About 8 items are deleted out of 16 items. The remaining 8 items are retained as they have loadings that range between 0.700 and 0.844. The internal consistency reliability is the extent at which all items on particular scale are measuring the same concept (Sun et al., 2007). Composite reliability’s threshold; Values between 0.70 and 0.90 are considered satisfactory, value above 0.95 is regarded unsuitable and value below 0.60 indicate lack of internal consistency validity (Bernstein & Nunnally, 1994). This study composite reliability ranged

between 0.810 and 0.844 which is above the threshold of 0.70 which shows internal consistency of the measure. Table 3.3 depicted

the composite reliability (CR), items loading and Average Variance Extracted (AVE) for the measurement model.

**Table 3.3: Items, loading, CR and AVE of the Latent Variables**

<i>Constructs</i>	<i>Items</i>	<i>Loadings</i>	<i>CR</i>	<i>AVE</i>
Risk-taking	RIS1	0.815	0.844	0.576
	RIS2	0.773		
	RIS3	0.742		
	RIS5	0.700		
Export performance	EP1	0.844	0.810	0.588
	EP3	0.728		
	EP5	0.723		

AVE for this study ranged between 0.576 and 0.588 while the outer loading of all constructs ranged between 0.723 and 0.844; this indicates convergent validity. Moreover, discriminant validity threshold is that the square root of the average variance extracted is all greater than the correlation among latent

constructs, signifying sufficient discriminant validity (Fornell & Larcker). In Table 3.4, the square root of the AVE, 0.767 and 0.837 are all greater than the correlation among the latent construct which shows discriminant validity

**Table 3.4: Square Root of AVE and Correlation of Latent Variables**

Latent Variables	Export Performance	Risk-taking
Export Performance	<b>0.767</b>	
Innovativeness	0.582	<b>0.759</b>

Note: Diagonal elements (figures in bold) are the square root of the variance shared between the constructs and their measures.

Off diagonal elements are the correlations among constructs.

**Table 3.5: Cross Loading**

Variables	Export Performance	Risk-taking
EP1	0.844	0.514
EP3	0.728	0.401
EP5	0.723	0.412
RIS1	0.515	0.815
RIS2	0.449	0.773
RIS3	0.385	0.742
RIS5	0.402	0.700

All the available indicators of export performance; 0.844, 0.728, 0.723 and risk-taking; 0.815, 0.773, 0.742 and 0.700 are greater than the other reflective indicator. This means the requirement of discriminant validity has been achieved.

**3.2.2 Assessment of the Structural Model**

Standard bootstrapping procedure was used with a number of 5000 bootstrap samples and

356 cases to assess the significance of the paths (Henseler *et al.*, 2009; Hair *et al.*, 2013). Table 3.6 summarizes the results of reflective measured constructs; risk taking and export performance by showing the original outer weights estimates, the t values and the corresponding significance levels marked in asterisks as well as the p values

**Table 3.6: Path Coefficient of the Model**

Hypotheses	Beta	T Statistics	P Values	Decision	(f <sup>2</sup> )
Ho: Risk-taking -> Export Performance	0.248	3.725***	0.000	Rejected	0.071

Notes: Note: \*\* (P<0.01),

The result of the study as shown in Table 3.6 revealed that risk-taking positively and significantly affects export performance of SMEs in Kano, with  $\beta=0.248$  and  $p=0.000$ . Thus, Ho is not supported and therefore rejected at 1% level of significance. There is adequate statistical evidence to reject the null hypothesis and the study therefore concludes that risk-taking has positive and significant effect on export performance of SMEs in Kano

This study also employed coefficient of determination ( $R^2$  value) as one of the criteria to assess the structural model in PLS-SEM (Hensler *et al.*, 2009). R- Squared is a measure of the proportion of an endogenous construct’s variance that is explained by its

predictor construct (Hair *et al.*, 2013). The acceptable level of  $R^2$  values are 0.25, 0.50, 0.75 for endogenous variable and could be described as weak, moderate, or substantial (Hair *et al.*, 2011). While minimum, an acceptable level of R squared is 0.10. The research model explained 50% of the variance in export performance. This implies that risk-taking explained 50% of the variance in endogenous variable (export performance). Thus, using the criteria of Falk and Miller (1992) and Chin (1998), export performance (endogenous variable) could be considered moderate

The predictive relevance of the research model was assessed through the cross-validated redundancy measure  $Q^2$  (Ringle *et*

al., 2012). Blindfolding is a sample reuse technique that omits every data point in the endogenous construct indicators and estimate the parameter with the remaining data point set (Hair et al., 2013; Henseler et al., 2009). A

research model with  $Q^2$  statistics (s) greater than Zero is considered to have predictive relevance (Henseler et al, 2009).Table 3.7 depicts the cross validated redundancy for export performance (endogenous variables).

**Table 3.7: Construct cross-validated Redundancy**

Constructs	SSO	SSE	$Q^2 (=1-SSE/SSO)$
Export Performance	624.000	450.404	0.278

**Source: Survey data analyzed using SMART PLS, 2022**

As depicted in the Table 5, the cross-validation redundancy measure  $Q^2$  for the endogenous latent variable is above zero, this suggests that predictive relevance of the study model (Henseler & Ringle, 2009)

**4 Results and Discussion**

This study examines the effect of risk-taking on export performance of SMEs in Kano. The quantitative data analysis reveals that SMEs’ risk-taking positively and significantly ( $\beta=.248$ ,  $t=.3.725^{***}$ ,  $p=0.000$ ) impact on export performance. The finding is consistent with the findings in China (Gou & Jiang, 2020) and Tanzania (Okangi, 2019). Therefore, this finding of risk-taking and SMEs’ export performance-relationship supports the previous studies that have posited that risk-taking has significant impact on export performance. This is also in consonant with the meta-analysis of Stewart and Roth (1999) that found that growth oriented

individuals, i. e. companies, no matter what their size or age, have a higher risk taking propensity.

The finding of risk taking and export performance emerged a new theory by investigating different aspects measured in both variables. The study suggests that the owners/managers of SMEs in Kano practice risk-taking strategies on their products, marketing activities, and production process to meet the customer demand in the international market. From the study, it has been established that risk-taking improves the domestic and foreign technological networking for competitive advantage in the foreign markets. Thus, firms with an entrepreneurial risk-taking behavior, such as incurring heavy debt or making large resource commitments, in the interest of obtaining high returns by seizing opportunities in foreign market would achieve and sustain competitive advantage in export market.

Theoretically, the contribution of this study also extends resource based view (RBV) as an appropriate theoretical perspective for emerging market by providing evidence for export performance of SMEs. The basic element of RBV is identification of the presence of inimitable resources which cannot be eroded by competition overtime. Risk-taking propensity as one of entrepreneurial orientation dimensions constitutes a hard to duplicate resource when a firm investigates the result of various prospective investments and predicts scenario of likely outcome and thus, recognizes key risk factors and their causal sources and then tries to manage or reduce these factors.

### **Recommendation**

Risk taking in this study has significant effect on export performance, hence; owners/managers of SMEs could view the foreign market as opportunity to be pursued despite the volatility. The management of SMEs should take calculated risk by always investigating the result of various prospective investments and predicts scenario of likely outcome and thus, recognize key risk factors and their causal sources and then tries to manage or reduce these factors in international arena. However, the extreme risk that involves

reckless decision making that management identified should be avoided. The context of Kano, Nigeria as an emerging market has also indicate the importance of risk taking as it offers abundant business opportunities. This is in line with a perspective by Laforet and Tann (2006) which suggested that SMEs need to take risks, as it indicates their openness to change, including new ways of working.

### **Suggestions for Future Studies**

This study considered the direct significant effect of risk-taking on export performance of SMEs in Kano. Future study can consider the mediating effect of learning orientation on the relationship between risk-taking and export performance of SMEs. Similarly, future study can also consider environmental variables (environmental turbulence, environmental dynamisms) as moderating effect of the relationship between risk-taking and export performance of SMEs in Kano. Moreover, the findings of this study should be validated at different settings to find whether the findings apply to SMEs' exporters in different countries and emerging markets. In addition, a longitudinal design might be more appropriate to investigate risk-taking as it might take some period before these orientations affect export performance.

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## Mitigating Effect of COVID 19 Pandemic on Banks Profitability in Nigeria: The Moderating Role of Government Financial Support

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### Abstract

*The mitigating effects (lockdown, quarantine and social distancing) of the Covid 19 Pandemic negatively affect all sources of revenues, making it difficult for banks to declare profit. The objective of the study is to explore moderating role of government financial support on the relationship between the mitigating effects of Covid 19 pandemic and banks profitability in Nigeria during the pandemic period. In achieving this, questionnaires were distributed to 86 branch and operation managers of the sampled banks in the study area were the study respondents. Using SEM / PLS, the results from the study indicated a significant and positive relationship between lockdown and banks' profitability, while quarantine and social distance do not influence banks' profitability. Furthermore, the results showed government financial support positively moderates the relationship between lockdown and banks' profitability. The study recommends that government should continue using monetary measures to strengthen banks, especially when there is a lockdown on banks in each phase of the pandemic since the pandemic is expected to continue.*

**Keywords:** Bank profitability, Covid 19, Government Financial Support, Lockdown, Quarantine, Social distancing

### 1.0 Introduction

The global economy witnessed recessions at different periods; for instance, the recessions of 1930, 1950, 2004, and 2008 caused severe damage to international and national economies. However, We-Fi (2020) argues that the severity level, according to some researchers, does not pose greater damages when compared to the most recent economic upheavals resulting from the Covid 19 pandemic. The Covid 19, according to Amuda, (2020); Bouney, (2020), originated in Wuhan city in Hubei province in China in the

last quarter of 2019 through a noble virus called the corona. Covid 19 pandemic is considered the largest public health crisis in human history. The devastation rate caused by this novel virus opens a tin of worms that spread at an unprecedented rate, affecting all human endeavors (World Health Organisation [WHO], 2020).

Looking at the scenario from a global perspective, millions of people died, and workers lost their jobs. Small and medium enterprises' productivity fell with trade

investments, and financial markets, including banks, witnessed bad fortunes, as argued by Statista (2020) and Adian, et al. (2020). Banks, according to Rahmi and Sumirat (2021) suffered poor cash collection, liquidity problems, slowing revenues, and an increase in loan loss provisions, as argued in Oyeneyin and Kuyaro (2020).

To curtail the spread of the pandemic, the World Health Organization (WHO, 2019) prescribed quarantine/restriction of movement, lockdown, and social distancing as strategies to be adopted globally. Despite the positive expectations of these strategies on public health, researchers and administrators argue that the strategies have repercussions on both the global, national, and local economies (Ozcan, 2020). In response to the situation, governments at different levels, corporate organizations, humanitarian organizations, and individuals respond favorably in cushioning the effects of quarantine, lockdown, and social distance (Caplain, 2020).

Amuda, (2020) found that the novel virus caused a drop in the global economy to the tune of \$1 trillion to \$2 trillion as opposed to \$80 trillion before the pandemic. The manifestation of this ugly situation surfaced in every country's economy. For instance, in Asia, between February and March 2020, the

economies of the Asian countries became paralyzed as factories and small, medium, and large corporate organizations were forced to close down (SUN and WEF, 2020). Similarly, activities in the Japanese factories are contracted with more than 700,000 people affected by affecting the supply chain. In a similar report, the World Bank (2020) reported that sub-Saharan Africa would witness a contraction in growth by 2.8 percent, Middle East and South Africa by 4.2 percent, Europe by 4.2 percent, and Latin America by 7.2 percent.

The devastating nature of the pandemic, according to some reports, affected nearly half of the population in Nigeria, especially those that are vulnerable to hunger (85.2 million) at the same time, negatively affecting the productivity of 41.5 million SMEs (ITC, 2020) as well as service industries( banks inclusive). According to Oyeniyin and Kuyaro (2020), banks witnessed a 6 percent decline in revenue at the same time, extending provision for loan losses to 200 percent compared to the period before the pandemic.

In response to the mitigating effects of Covid 19 pandemic, countries across the globe propose monetary, fiscal, and regulatory measures to cushion the effects of the pandemic, especially in reinstalling economic activities back to normal operations. The apex

banks of these countries represent their respective governments by providing palliatives and incentives measures, reduction of interest rates, and supplying the needed funds while providing relief packages (Kunt, Pederaza & Ortega, 2020) to reduce the mitigating effects.

### **1.2 Statement of the problem**

The global economic recession of 2008, the oil shock, and the most current Covid 19 pandemic affected the entire global economy (Ajide, et al. 2020). The latter, which is considered a human health issue, started in Wuhan province (China) and spread its tentacles across the globe in the last quarter of 2019 (WHO, 2020). Many believe that the mitigating effects to contain the contagious nature of Covid 19 pandemic put the productivity level of the global economy under pressure, with the banking sector negatively affected (Shoroeder, 2020; Nwokeoma, 2021). For instance, in Spain, bank performance in terms of profitability according to STATISTA (2021) during the pandemic reported that the profit of the largest six banks shows a negative result with SAHADELL73%,BBVA63% SANTANDER 76%,BANKIA 42.4% and CAIXABANK 19% drop in profit performance when compared to the period before the pandemic. Similarly, according to Leng et al. (2020),

Chinese commercial banks recorded a 9.4% drop in net profit in four major Chinese banks, with a slight improvement in one. Similar reports from the United States of America indicated that banks witnessed a 36 percent decrease in profit in 2020 compared to the period before the pandemic (Schroeder, 2020). However, in Nigeria, Collins, Remigius and Amarchi. (2022) conducted a study using a questionnaire method. The study's findings indicated that the Covid 19 pandemic negatively affected bank performance in terms of revenue. However, the statistical technique used in the study (simple regression) will not provide the desired result thereby creating a vacuum. Furthermore, the study should include quarantine and restriction of movement, which is an equally important variable worth studying these provide gaps that need to be filled by future researchers. Similarly, the role played by the government through monetary and non-monetary measures needs to be studied as a moderating factor between Covid 19 pandemic and banks' profitability. The objective of the study is, therefore:

To explore the moderating effect of government support on the relationship between the mitigating effects of Covid 19 pandemic and banks' profitability in Nigeria.

## **2.0 Literature Review**

### **2.1 Banks Profitability**

Omoliko (2020) looked at bank profitability as a measure of banks' performance through charging fees and earning interest from their assets. However, controversy exists on the best measure or indicators to use in assessing the bank's financial profitability, as noted by Nwokeoma (2020). Abdulrahman (2010) identified three measures of bank profitability under different conditions, which include; Net Interest Margin (NIM), Return on Equity (ROE), and Return on Assets (ROA) which are widely employed in literature to measure banks' profitability. However, the superiority of one indicator over the others depends on the divergent views among scholars. In a similar research conducted between First Bank and Intercontinental Bank, Akpan (2009) employed gross profit margin and net profit margin to determine the performances of First bank and Intercontinental Bank under consolidation exercise.

In Nigeria, banks' performance in terms of profitability during the Covid 19 is glaring despite the mitigating effects of the pandemic. Records indicate that the turnover of the six major banks increased marginally by 2.5 percent in the last quarter of 2020 as against N2.505 trillion in the 1<sup>st</sup> quarter of 2019. Similarly, the performances of the same banks

in terms of profit before tax (PBT) increases by 6.5 percent as against 545.7 billion Naira in the first quarter of 2020 (Egwatu, 2021).

In an attempt to clear the dust, some Nigerian bankers lamented that Nigerian banks recorded success for the following reasons; banks digitalization, increase in global oil prices as well as government palliative and incentive measures as forwarded in Nwokeoma (2021).

### **2.2 Covid 19 Pandemic**

Covid 19 is considered the largest public health crisis that has affected humanity in history (WHO, 2020). The ailment is coursed by a novel virus (SARS-Cov-2 Virus) from Wuhan in China in the last quarter of 2019 (Amuda, 2020; Bouney, 2020). This novel virus's consequences lead to a global pandemic that affects the entire global economy (Women Entrepreneurs Finance Initiatives [We-Fi], 2020) by bringing all sectors to their knees. For instance, in 2022 more than three million people died as reported by WHO (2020), workers lost their jobs, and productivity fell with trade investments and financial markets, including banks witnessed bad fortunes, as argued by Adian, Daumbia and Gregory (2020).

To curtail the spread of the pandemic, the World Health Organization (WHO, 2019) prescribed quarantine/restriction of move

ment, lockdown, and social distancing as a strategy to be adopted globally. Researchers and public health administrators argue that these strategies negatively affect global, national, and local economies (Ozcan, 2020).

### **2.2.1 Relationship between Lockdown and Banks' Profitability**

Ajide and Alimi (2020) conceptualized lockdown as an emergency response imposed by the government mandating people to stay indoors in the event of an outbreak. As a strategy to curtail the spread of the novel virus, the World Health Organization (WHO) 2020 as mentioned in Collins et al, (2022) prescribed that all public places, including markets, schools, motor parks, and banks, to mention just a few, should be closed down to limit the rate of infection, since the virus is contagious. According to Ibrahim, et al (2020), the implementation of lockdown as a measure in Nigeria takes two phases; the first took place with immediate effect on 4<sup>th</sup> May and lasted for two weeks, while the second phase took place with immediate effect on 2<sup>nd</sup> June 2020. However, implementation of this measure impinges on the rights and well-being of business entities, especially SMEs and service (banks) industries, within the periods of lockdown (Abdulrahman, 2021). Gain and partners (2020) reported that partial implementation of lockdown in Nigeria was

imposed on 25<sup>th</sup> March 2020, with varied intensity from one state to another (Aromolaran et al. 2020). Ajide and Alimi (2020) hinted that the impact of lockdown on variables such as retail, Motor Park, and workplaces, including banks, are significant and negative. The study further indicates that the 1 percent increase in compliance to stay at home leads to a corresponding decrease in reduction by a magnitude 2.6 percent, 1.9 percent, 3.5 percent, 2.0 percent, and 2.0 percent to retail, grocery, parks, transit station and workplace respectively (Ajide & Alimi, 2020).

What characterized lockdown was the suspension of nonessential activities that include factories, markets, schools, and institutions such as banks, insurance, and courts. Essential institutions (hospitals and security agencies) can operated at a skeletal level. At the same time, banks were forced to close down throughout the lockdown period, making operations impossible. For example, Sayegh and Afetous (2021) conducted a study on the impact of Covid 19 on banks' profitability in the Nordic counties. Using primary data, results from the study indicated that Covid 19 (lockdown) harmed banks' profitability in Nordic countries. Similarly, the study further showed insignificant results in terms of Return on Equity (ROE)for banks

in Denmark, Norway, and Finland when compared to Sweden. Similarly, Collins et al (2022) conducted a study on the impact of Covid 19 pandemic on the corporate performance of the banking sector in Nigeria. Using a structured questionnaire, their findings indicated that lockdown negatively affected banks' revenue, whereas social distancing hurt corporate efficiency among the sample banks.

To measure the performance of Nigeria Firms under Covid 19 pandemic, Hope et al.(2020) examined the relationship between Covid 19 pandemic and private firms' financial performance in Nigeria. Using linear regression analysis results indicated that Covid 19 pandemic has negatively affected the sampled firms' financial and non-financial performance. This study, therefore, postulates the following hypothesis.

**Ha<sub>1</sub>:** Lockdown significantly influences Banks profitability during the Covid 19 pandemic in Nigeria.

### **2.2.2 Relationship between Quarantine/Restriction of movements and Banks Profitability**

To curtail the spread of the contagious disease, WHO (2020) cautioned the need to restrict the movement of people from spreading the virus, and those contacted should be isolated in isolation centers. The travel restriction is

applied to cross boundaries, inter-state and local movements within the period of pandemic and the outcome of the strategy affects all human endeavors, from transportation to trading, factories, schools, and service industries (banks). Despite banks were close, bank customers have the liberty to exploit e-banking services, including ATM, POS, internet banking, and other electronic services provided by the banks. The measure, however, affected ATM and POS, which are closer to bank customers. Bank customers did not have access to ATMs and POS service centers due to the nature of the restriction of movement. In some places, it was from dusk to dusk, whereas in others, restrictions were imposed from morning to evening. Some researchers opined that the lack of utilization of ATMs machines and POS centers during the imposed restrictions negatively affected banks' revenue (Ajide, et al, 2020).

In their contribution, Omoliko, et al (2021) conducted a study on the impact of Covid 19 Pandemic on the liquidity and profitability of firms in Nigeria. Using secondary data the study findings indicated that the restriction of movement Covid 19 pandemic negatively affected the profitability of firms' return on equity (ROE) and loan ratio (LR) at 95 percent confidence level in Nigeria.

In Ethiopia, using data from 2010 to 2019, Tesfaye (2020) conducted a study to explore the impact of Covid 19 pandemic on the Ethiopian banking system. The study results indicated that Covid-19 pandemic negatively affected the Ethiopian banks' income statements and balance sheets compared to the pre-pandemic period. Similarly, in assessing the banks' financial performance in Indonesia, Rahmi and Sumirat (2021) applied quantitative and qualitative approaches to determine bank liquidity and performance during the Covid-19 pandemic in commercial banks. Results from the study indicated positive significance on primary variables, including Capital Adequacy Ratio (CAR), Cost to Income Ratio (CIR), and Loan to Deposit Ratio (LDR). However, Net Interest Margin (NIM) is not statistically significant during the Covid 19 pandemic.

The study, therefore, postulates the following hypothesis.

**Ha2:** Quarantine/Restrictions of movement positively affect banks profitability during the Covid 19 pandemic in Nigeria.

### **2.2.3 Relationship between Social Distance and Banks Profitability**

Similarly, social distance is prescribed to curtail the spread of the virus (WHO, 2020), and it entails maintaining a distance of at least one meter between individuals for fear of

being contacted. It should be noted that social distance is limited to places where their services are considered essential or situations where gatherings are unavoidable. Few Bank customers manage to take the pains and follow the queue to withdraw money from ATMs, as observed by (Ajide, et al. 2020). This increases banks' revenue flows even though most of the ATMs are found to be empty, and network problems and congestion.

Similarly, Collins et al (2022) conducted a study on the impact of Covid 19 pandemic on the corporate performance of the banking sector in Nigeria. Using a structured questionnaire their findings indicated that lockdown negatively affected banks' revenue, whereas social distancing hurts corporate efficiency among the sample banks.

Furthermore, in assessing the banks' financial performance in Indonesia, Rahmi and Sumirat (2021) applied quantitative and qualitative approaches to determine bank liquidity and performance during the Covid-19 pandemic in commercial banks. Results from the study indicate positive significance on primary variables, including Capital Adequacy Ratio (CAR), Cost to Income Ratio (CIR), and Loan to Deposit Ratio (LDR). However, Net Interest Margin (NIM) is not statistically significant during the Covid 19 pandemic.

In their contribution, Omoliko, et al (2021) conducted a study on the impact of Covid 19 Pandemic on the liquidity and profitability of firms in Nigeria. Using secondary data the study findings indicated that social distancing and lockdown (Covid 19 pandemic) negatively affected the profitability of firms' return on equity (ROE) and loan ratio (LR) at 95 percent confidence level in Nigeria.

Similarly, the effect of social distancing on profitability does not only affect banks but other sectors of the economy are negatively affected too. For example, to measure the performance of Nigeria firms in the manufacturing industry under Covid 19 pandemic, Hope, Saidu and Success (2020) examined the relationship between Covid 19 pandemic and private firms' financial performance in Nigeria. Using linear regression analysis results indicated that Covid 19 pandemic has negatively affected the sampled firms' financial and non-financial performance.

The study, therefore, postulates the following hypothesis.

**Ha3:** Social distance positively and significantly influences banks' profitability during the Covid 19 pandemic in Nigeria.

### **2.3 Moderating Role of Government Financial Support**

A moderator variable in research is use to strength or change the direction of the relationship between the two variables of the study (Baron & Kenny, 1966). Based on the results of previous studies, this study considers the use of government financial support as a moderator to see if it can strengthen the relationship between the mitigating effect of Covid-19 pandemic and banks profitability.

Government financial support comes as a policy response (monetary/non-monetary, palliatives and incentives) to cushion the financial implications of the Covid-19 pandemic (Kongsmut, Monaghan & Riedwig. 2021; Tan, Igan & Peria, 2020) on sectors that were financially distressed by the pandemic. However, Jaiz Bank (2020); Klynveld Peat Marwick Goerdele (KPMG, 2020) opined that interventions during the Covid- 19 pandemic are not limited to the government alone; similar bodies and corporate enterprises contributed handsomely to address the mitigating effect of the virus. For instance, the Asian Development Bank (ADB) provided the sum of \$ 6.5 billion as a relief package to its member nations. The sum apportions into 3.6 billion as foreign interventions, 1.6 billion for non-sovereigns to SME 1 billion for

contingencies, and 140 million as technical assistants (IMF, 2020; UNDP 2021). Similarly, African Development Bank (AFDB) pronounced \$ 3 billion to alleviate the social and economic impacts of Covid 19 on Africa's economies. Likewise, European Bank for Reconstruction and Development (EBRD) provided a \$1 billion emergency relief package to meet emergency liquidity, working capital, and trade finance (Women Entrepreneurship finance Initiatives [We-Fi] 2020).

In response to the pandemic, various policy responses were set in place by governments to address the implication of financial mitigation strategies. For instance, in China, despite various chained that the virus originated from Wuhan, the government authorized the central bank to extend a monetary stimulus amounting to \$ 174 billion, and easing borrowing costs and reducing the interest rate to 2.5% were among the policy measures taking by the Chinese government (Da, Feng & Jin, 2021). The Chinese Central Bank also pronounced that banks should defer payment periods and postpone interest payments on all SME loans ( PWC, 2020; Bouey, 2020: Da, et al. 2021). In its effort to stimulate the economy with a particular reference to SMEs, Germany pronounced tax deferral and eliminated stingy measures to ensure easy

access to loans by all SMEs. Similarly, the government issues a \$ 20 billion interest-free package emergency loan in Switzerland to support SMEs' productivity (Price Waterhouse Coopers [PWC], 2020).

In Africa, particularly in South Africa, the government provided funds to assist SMEs, especially in tourism and hospitality, while reducing the policy rate to 5.25%. Assessing the Nigerian government policy responses in addressing the mitigating effects of Covid 19, the Central Bank of Nigeria reduced the interest rate on all CBN interventions from 9% to 5% and the introduction of N50 billion targeted credit facility for SMEs. Similarly, through the apex bank, the government injected ₦3.65 trillion as liquidity intervention into the banking sector (Price Waterhouse Coopers [PWC], 2020 and International Monetary Fund [IMF], 2020). All these interventions were meant to strengthen the banking sector, which was on the verge of collapse.

In Nigeria, a study was conducted by Oyewole, Adebayo and Kehinde (2020) to estimate the impact of Covid 19 on SMEs. Using primary data, the result of the study indicated a significant positive influence of government financial support on SMEs' productivity during the period of Covid 19 pandemic. In a different study conducted by

Chigozie, Oju and Obiageri (2020) captioned *Do Government Funding Affects Productivity in Nigeria*, finding indicated that government financial support (monetary/fiscal) influences the productivity of SMEs during the Covid-19 pandemic in Nigeria.

The study, therefore, postulates the following hypotheses.

**Ha4:** Government financial support positively moderates the relationship between lockdown and banks' profitability in Nigeria.

**Ha5** Government financial support positively moderates the relationship between social distance and banks' profitability in Nigeria.

**Ha6** Government financial support positively moderates the relationship between Quarantine/Restriction of movement and banks' profitability in Nigeria.

**Ha7** Government financial support positively and significantly influences banks' profitability during the Covid 19 pandemic in Nigeria.

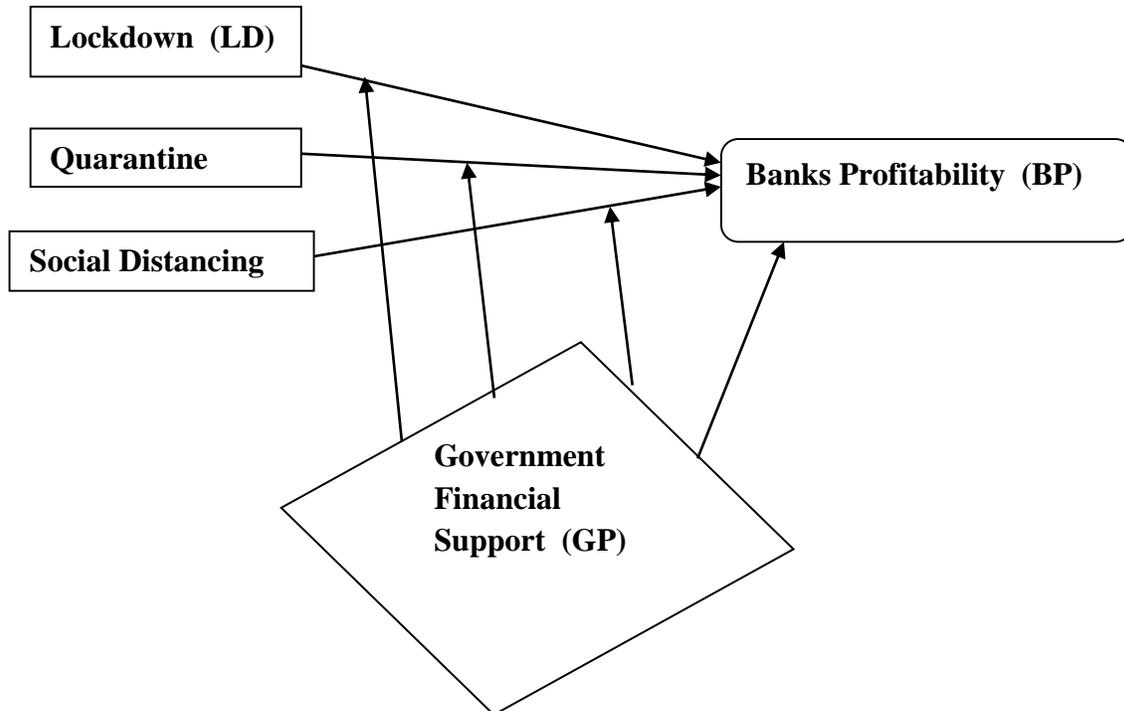
### **2.3 Theoretical Framework**

The underpinning theory of the study is the Keynesian theory of macroeconomics, which advocates government intervention in a private setting where market forces are weak, as opposed to classical economists which believes that government has no role to play in

a competitive market setting (Keynes, 1936). The Keynesian theory believes in government participation through an increase in government expenditure, investments, incentives, and palliative measures, as well as lowering taxes to stimulate demand and bring the global economy out of depression (Arestis, Filho & Terra, 2018). Assessing banks during the pandemic in Nigeria, the institution was affected by the un-wanting situations of lockdown, quarantine, and social distance, a reflection of a situation where market forces cannot save the situation by making it difficult for the banks to achieve the desired result. As Keynes advocates, government support is required to arrest such a difficult situation.

### **2.4 Conceptual Framework**

The study proposed a conceptual framework to study the moderating effect of government financial support on the relationship between the mitigating effects of Covid 19 and banks' profitability in Nigeria



**Figure 1: Conceptual Framework**

### 3.0 Research Methodology

The research design used in this study was a descriptive and quantitative survey design. The study used primary data and questionnaire was distributed to study respondents on 5 Likert's rating scales owing to its advantages, as suggested by Ahmed (2010). Using Krejcie and Morgan's (1970) table, 86 respondents (branch and operation managers) were chosen as the sample size from the total population of branch and operation managers of 104 in the 52 branches of the first-tier banks (First bank, United Bank for Africa, Guaranty Trust bank, Access bank and Zenith bank). The study adopts a stratified proportionate sampling strategy to select the study respondents from the sample banks this is to give each element

an equal opportunity to participate considering differences in the number of branches. The justification behind the study area selection is that Kano state is a commercial center since the Tran-Saharan trade. The state witnessed the presence of the first-tier banks and is one of the five-hotspot states burdened by the nationwide pandemic (United Nations Development Program [UNDP], 2021), and the justification for using first-tier banks is the ability that the banks post profits despite the mitigating effects of covid19 and at the same time, they enjoy an economy of scope.

The study variables were measured from extant literature with some modifications to meet the study objectives. Mitigating effect of

Covid 19 pandemic is measured using Lock down, Quarantine and Social distancing ( Abdulrahaman, 2021, Sayegh & Afentous, 2021; Kongsmut et al 2021) with five items each. However, banks' profitability as the dependent variable is measured by Net Profit margin as found in Abdulrahaman (2010), Nwokeoma (2020), Omoliko (2020) with seven items. The moderating variable of government financial support (GS) is measured by monetary policy as found in Kongsmut et al, ( 2021) and Tan et al (2020) using 5 items. Data were analyzed using Partial Least Square path modeling (PLS) to test the hypotheses. The technique is appropriate for a relatively complex model with a large number of latent variables (Amin, 2006).

**4.0 Results and Discussions**

In administering the data collected, 55 respondents from 86 sampled respondents returned their questionnaire well filled, contributing to 64%. Only 31 respondents do not return their questionnaires due to their tied office schedules. It should be noted a response

rate of 64.0% is good to provide representation for analysis and reporting as argued by Mugenda and Mugenda (1999). The respondents' profiles indicated that the majority are male (67, 80%) and married (60, 85 %). Concerning the educational level of the respondents, 65% equivalent to 56 have post-graduate degrees while the remaining have a first degree or equivalent. Similarly, the majority of the respondents have working experience ranges between 20 years and above (65, 75.6%), and the minority of respondents with working experience between 5 and 10 years.

**Descriptive Characteristics of the Study Variables**

To make a summary of the observed data, the researcher established means and standard deviations. Based on guidelines by Field (2009), the means represents a summary of the data, and the standard deviations indicates the extent to which the means represent the data. Table 1 shows the summary of means and standard deviations.

**Table 1: Descriptive characteristics of study variables**

	<b>Covid 19</b>	<b>Government support</b>	<b>Banks Profitability</b>
Mean	3.12	3.32	2.87
Std. Deviation	.57	.60	.41

**Source: Primary data**

In Table 1, mean scores for the variables of the study fall between 2.87 and 3.32 on an anchor

of a four-point Likert scale, and the standard deviations range from .41 to .60. Based on the

works of Field (2009), small standard deviations relative to the mean values indicate that the data points are close to the means, which is a manifestation that the mean represents the data observed. All scores for the study variables, that is, the Covid-19 pandemic, government support, and banks' profitability, are above the mid-score (2.0).

*Assessment of Measurement (Outer) model*

In achieving the study's objective, data was administered and the result from Table 2

shows outer loadings were examined to establish the composite reliability. The result indicated that all the loading values surpassed the recommended threshold value of 0.70 (Hair, Hult & Ringle, 1998, 2006), as all loadings range from 0.738 to 0.879. This implies that each construct in the model has captured items that have much in common and they are statistically significant (Hair et al. 2019; Henseler, Ringle & Sinkovicks, 2009).

**Table 2 Loading, Internal Consistency and AVE**

Items	Loading	AVE	Composite Reliability	Cronbach's Alpha
LD1	0.852	0.716	0.924	0.867
LD2	0.851			
LD3	0.835			
LD4	0.814			
QRT2	0.927	0.716	0.910	0.924
QRT3	0.944			
QRT4	0.924			
SD1	0.846	0.686	0.890	0.841
SD2	0.899			
SD3	0.841			
SD4	0.803			
SD5	0.745			
GSP2	0.785	0.669	0.890	0.841
GSP3	0.807			
GSP4	0.850			
GSP5	0.829			
BP1	0.817	0.709	0.924	0.898
BP2	0.812			
BP3	0.872			
BP4	0.846			
BP5	0.862			

However, items such as QRT1 and GSP 1 are phased out because outer loadings are below the minimum required. The removal of these items will in no way affect the result of the study. Abdulrahaman (2016) suggested three items are sufficient and good enough to provide a good conclusion. An assessment of convergent validity was conducted by examining Average Variance Extracted (AVE) values; all the AVE values in the result surpassed the threshold of 0.50 (Hair et al. 1998, 2006), as shown in Table 2.

**Discriminant Validity**

To ensure the latent construct is unique and captures the phenomena not represented by other latent reflected in the constructs. The study uses Hetrotrait - Monotrait (HTMT) ratio criterion due to its advantage over traditional criteria such as Fornell and Larcker as suggested by Henseler et al. (2015). Ronkko and Cho (2020), Franke and Sarstedt (2019) and Henseler et al. (2015) further opined that the threshold is 0.85 as a conservative benchmark and 0.90 as a liberal cut-off mark for discriminant validity is to achieve. The ratios of all the constructs in the study achieved discriminant validity with ratios not greater than 0.9

**Table 3 : Discriminant Validity (HTML) Criterion**

	BP	GFS	GFS*LD	GFS*QRT	LD	QRT	QRT*SD	SD
BP								
GFS	0.159							
GFS*LD	0.223	0.150						
GSP*QRT	0.044	0.042	0.159					
LD	0.899	0.154	0.183		0.050			
QRT	0.084		0.159	0.037		0.075	0.047	
QRT*SD	0.119	0.150	0.043	0.137	0.069	0.064		
SD	0.104		0.063	0.079	0.053	0.160	0.084	
0.052								

**4.3 Structural (INNER) Model**

Hair et al. (2006) opined that structural mode is a model, which expresses a relationship in a hypothesized model. As suggested (Hair et al.,

2014), areas of concern include the R<sup>2</sup>, Beta coefficient and T values. The objective is to test the hypothesis relationship between the constructs.

Figure 2 Measurement Model

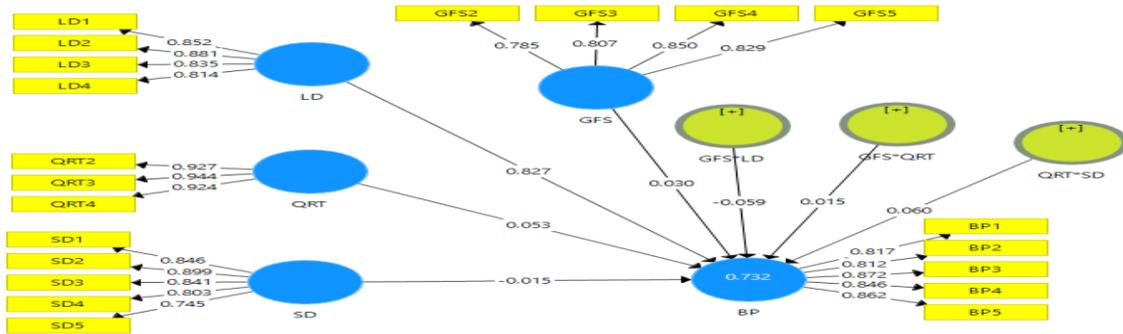
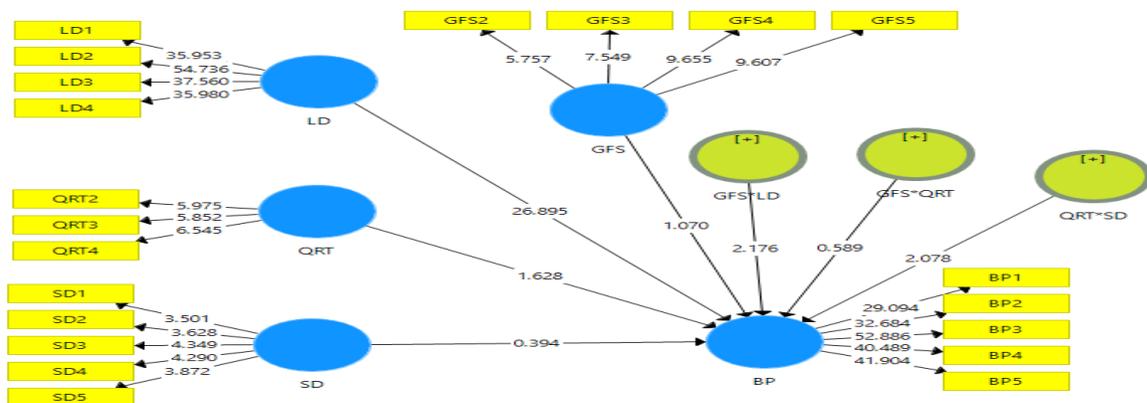


Figure 3 Structural Model



Results in Table 4 show a positive and significant relationship between lockdown and banks' profitability (P value 0.000) is statistically significant with the result that banks' profitability is not affected by the vagaries of lockdown during the Covid-19 pandemic, the study hypothesis (**H<sub>a1</sub>**) is therefore accepted. The finding of the study, however, is contrary to the result obtained by Tesfaye (2020), indicating the outcome of his result negatively affects the financial performance of Ethiopian banks. It should be noted digitalization of bank services, as argued by some bank managers, could be one

of the attributing factors to banks' success (Nwokeoma, 2020) during the lockdown.

The relationship between quarantine, social distance, and banks profitability results from Table 3 (P value 0.104; P value 0.694) respectively indicated negative relationships, and with these, the two hypotheses (**H<sub>a2</sub>** and **H<sub>a3</sub>**) were rejected. Previous studies (Kocha, et al. 2020; Omolike, et al., 2020; Hope, et al, 2020) supported our findings that mitigating the effects of Covid 19 pandemic negatively affects the profitability of banks and other firms in Nigeria. Reasons, among others, could not be devoid of the increase in non-

performing loans, loan defaults, and decrease in bank deposits, especially during the pandemic period, as ascertained by Hope, et al. (2020).

Furthermore, Table 4 shows a significant positive moderating effect of government financial support on the relationship between GFS\*LD and BP (P value 0.030). With this result, government financial support positively moderates the relationship between lockdown and banks' profitability; therefore, the study hypothesis (Ha4) is accepted. Similarly, to test the moderating effect of government support on the relationship between social distance and banks' profitability (GFS\*SD and BP: P value 0.038) result in Table 4 indicates government support during imposing social distance positively

influences the relationship between social distance and banks profitability. With this result (Ha5) is accepted. These results conquered with earlier findings of the study conducted by Oyewole, et al. (2020) on the positive influence of government financial support during the period of Covid 19 pandemic. The role played by the government in providing both palliatives and incentive measures in billions of Naira increases banks' liquidity. However, Table 4 further shows no moderating effect of government financial support on the relationship between quarantine and banks' profitability GFS\*QRT and BP (P value 0.556). The study hypothesis (Ha6) is rejected based on the above finding. The result is not in agreement with the earlier findings of Oyewole, et al (2020)

**Table 4 Result of the Hypotheses Testing and Structural Relationship**

<b>Path Coefficients</b>							
<b>Mean, STDEV, T-Values, P-Values</b>							
	(O)	(M)	(STDEV)	( O/STDEV )	P Values	<b>Decision</b>	
LD -> BP	0.827	0.823	0.031	26.895	0.000	Accepted	
QRT -> BP	0.053	0.053	0.032	1.628	0.104	Rejected	
SD -> BP	0.015	0.011	0.039	0.394	0.694	Rejected	
GFS*LD -> BP	0.059	0.065	0.027	2.176	0.030	Accepted	
GFS*SD -> BP	0.060	0.058	0.029	2.078	0.038	Accepted	
GFS*QRT -> BP	0.015	0.014	0.025	0.589	0.556	Rejected	
GFS -> BP	0.030	0.036	0.028	1.070	0.285	Rejected	

- t 95% confidence level

Where: O= the original sample, M =sample mean, STDEV =standard deviation and O/STDEV =T statistics

Similarly, in testing the relationship between government financial support and banks' profitability result from the Table 4 (P value 0.285) indicated a negative relationship with this result; the study hypothesis is rejected (**Ha7**). This result does not concur with the earlier finding of the study conducted by Chigozie et al. (2020), which emphasized that

government financial support (monetary/ fiscal) influences productivity during the Covid-19 pandemic.

To strengthen the study result, Table 5 provides the R square result. The coefficient of R square indicates the level of variability as suggested by Hair et al. (2014)

**Table 5 Effect of Covid-19 Pandemic on Banks' Profitability**

Constructs	R Square
Lockdown	
Quarantine	
Social distance	
Banks profitability	0.732

The coefficient of R square 0.732 explains that the mitigating effect of Covid 19 pandemic was able to explain 73.2% variations in banks' profitability, with 26.8% not captured.

**Implication for Practice**

The study provides banks with full insight into how to overcome the consequences of Covid 19 pandemic while fostering their performance. From the evidence, banks' performance in terms of profit before tax, profit after tax, and gross earnings are influenced by the lockdown. In contrast, quarantine and social distance do not influence banks' profitability. The study's findings indicated that bank profitability grew

during the lockdown. One of the reasons behind that is the adaptation of e-banking by most bank customers.

Similarly, government participation as a policy response to address the pandemic through incentives and other palliative measures contributed greatly to banks' profitability. Government's support during the lockdown and social distancing were important as they moderated the relationship between lockdown and social distance and banks' profitability. It should be noted that the new phase of the pandemic (omicron) is devastating. The government should continuously provide similar support to banks, especially when lockdowns and social

distancing are put in place to counter the spread of the virus.

### ***Implication for Theory***

The study proves the worthiness of government participation under distressed economic conditions, contrary to the classical economic theory. The result of the study concur with the Keynesian theory that emphasizes the role of government in a situation where market forces prove to be inefficient in fostering economic growth. The role of the government in providing a safe landing to economic agents under Covid 19 pandemic in Nigeria is timely at a time when all economic sectors remain helpless.

### **5.0 Summary, Conclusion and Recommendations**

This study explored the relationship between the mitigating effects of the Covid 19 pandemic and the banks' profitability in Nigeria during the Covid 19 pandemic. Using a questionnaire on 234 operational bank managers from the sample banks, the summary findings of the results indicated that lockdown influences banks' profitability, while quarantine/restriction of movements and the social distance do not statistically influence banks' profitability. Similarly, government financial supports have a moderating effect on lockdown and social distance while statistically not moderating the

relationship between quarantine and banks' profitability. Based on these, the study concludes that hypothesis Ha1 is accepted, hypotheses Ha2 and Ha3 are rejected, and hypotheses **Ha4** and **Ha5** are accepted. Similarly, based on the study findings, **Ha6** and **Ha7** are rejected

### **Recommendations**

1. Government should continue using palliative and incentive measures to strengthen banks, especially when there is a lockdown on banks in each phase of the pandemic since the pandemic is expected to continue.
2. Banks should emphasize the digitalization of bank services as an alternative to traditional banking operations. Analysis shows that most of the revenue made by banks during the pandemic came from e-banking.
3. Bank customers should consider internet banking as an alternative to conducting their banking transactions in order to by-pass all sorts of gatherings/queues in ATMS' booths and POS centers.

### **Limitations and Suggestions for Future Studies**

The study draws its sample units from the first-tier banks making its findings difficult to generalize on all the quoted banks in Nigeria. However, the study suggested that further studies should draw samples from all the quoted banks in Nigeria.

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## Effect of Social Media Marketing on the Performance of Small and Medium Enterprises in Maiduguri Metropolis, Borno State Nigeria

By

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### Abstract

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*This study examined the effect of social media marketing on the success of selected small and medium-sized enterprises (SMEs) in the North-East region of Nigeria using a descriptive survey approach. Small and medium-sized enterprises that are officially registered in North-East Nigeria SME offices made up the study population. The sample size of 137 business owners who were operating for more than 3 years were selected for the study. The sample was determined using Krejcie and Morgan (1970) formula for determining sample size for categorical data and selected from the population using stratified random strategy following both descriptive and inferential statistics. SPSS 24 and multiple linear regression were applied to the data set for analysis. The data analysis showed a positive relationship between social media marketing and SMEs performance in the Northeast of Nigeria. Also, the study found that SMEs in Northeast Nigeria saw a significant increase in performance after implementing social media marketing strategies, and it is recommended that SMEs owners should ensure and endeavor to share instant update to customers, as they stand to benefit from increased patronage and loyalty from customers as well as realize a wide coverage of business spread in their business.*

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**Keywords:** Performance; SMEs; Social media marketing; Facebook, WhatsApp, Nigeria.

### 1. Introduction

The business and social fabric of many nations comprises small and medium scale enterprises (SMEs), which contributes to the economic growth hitherto. Similarly, small businesses across countries have tremendous backing on the performance of business growth and development of any economy (Lawal & Adejuwon, 2023). This serves as a means of sustainability in many spheres. SMEs especially in Nigeria contributes to the national development in

many aspects such as the provision of employment, revenue generation, citizen's well being and standard of living. As a result, SMEs performance are therefore crucial to business sales and performance. In order to sustain customer base, these SMEs are confronted with fierce competition and many challenges.

The performance of SMEs overtime has contributed to the development of social media which has led to the better

performance of SMEs (Ewah et al., 2021). According to Kateri (2021), social media is adopted to interact with existing and potential customers to strengthen relationships and increase sales through online presence and most specifically the social media tools like Facebook, You Tube, LinkedIn, Instagram, Whatapp etc. Similarly, in 2004, reports revealed that online sites such as blogs and Facebook increased their popularity and market growth via online marketing (Ndife, 2020). Online advertisement especially platforms like Facebook and WhatsApp facilitate wider outreach to customers to engage in satisfaction survey, product reviews, online purchases of products and services around the world. Statistics conducted by IPSOS, shows that UAE adult online shoppers polled 63% in the 12 months, which 49 % are both deomestically and cross-border. Similarly, the top three countries UAE online shoppers prefer to buy from revealed United States (30%), United Kingdom (18%) and India (18%).

Business success are attributed to sales and productivity through customer engagement vis a vis social media networks (Lakshmi et al., 2017). By so doing, higher level of productivity and brand awareness may be achieved at lower costs through social media rather than traditional ways of communication. A report by Orient Planet Research as reported by (Ghanem & Hamid, 2020)

found that social media channels such as Facebook, YouTube, WhatsApp and LinkedIn are increasingly being used by SMEs and have become major business enablers.

Nowadays, large, small and medium sized businesses are utilizing social media tools for business performance (Is-haq, 2019). This is because, it paves way for instant interaction with external environment and recognition. The application of mobile devices, and social media tools such as Facebook revolutionized the ecommerce adoption process in SMEs (Ghanem & Hamid, 2020)

Additionally, the advent of social media made it possible for individuals to easily and cheaply promote awareness through online networks. The most popular networking facility sites include: Facebook, LinkedIn, Twitter, Instagram, WhatsApp. Viber, WordPress, YouTube, Flickr, Google+, Pinterest, Quora, and Snapchat (Etim, 2020). This development presentes an opportunity for SMEs to increase their operation that leads to increase in revenue and enhance overall performance. Regardless of the many advantages of social media tools, there seems to be little awareness and knowledge gap among SME owners especially, on how to attain effective performance. Hence, this research investi-gates the effects of social media tools like Facebook and WhatsApp on performance of

selected small and medium-sized enterprises (SMEs) in Nigeria's northeastern states.

### **Objectives of the study**

The study's major goal is to look at the nexus between social media-driven tools and the performance of small, and medium-sized businesses in Borno State. The study's specific objectives are to:

- i. ascertain the relationship of Facebook on performance of SMEs in Maiduguri metropolis, Borno State, and
- ii. determine the relationship of WhatsApp on performance of SMEs in Maiduguri, metropolis, Borno State.

## **2. Literature Review**

### **2.1 Conceptual Review**

In this section concepts of the variables will be reviewed and explained as in the following sub-sections:

#### **2.1.1 Concept of Small and Medium scale Enterprises**

Concept of Small and Medium Scale Enterprises (SMEs) is defined as follows by the National Council on Industry as:

##### **Micro/Cottage Industry:**

Companies having an asset base of less than 1.5 million dollars, excluding land costs, but incorporating working capital and staff strength of less than ten people.

##### **Small Scale Industry:**

An industry with an asset base of more than 1.5 million dollars but less than 50 million dollars, excluding land costs, but including

working capital and/or a workforce of 11 to 100 people.

##### **iii. Medium Scale Industry:**

A company with an asset base of more than \$50 million but less than \$200 million, excluding land costs, but including working capital and/or a staff of 101 to 300 employees.

The concept of small and medium size enterprises varies from country to country depending on the economic need involved. The performance of SMEs plays a major role, but there is a dearth of literature about their contribution which are not well researched especially in Nigeria (Eniola, 2014). Sokoto and Abdullahi (2013) defined SMEs as a sector that is characterized with jobs creation, unemployment, low growth and poverty eradication. The total number of persons employed by Small and Medium enterprises (SMEs) sector in Nigeria as at December 2020 stood at 39,654,385 (NBS, 2020). Small and Medium Size Enterprises (SMEs) as defined by the National Council of Industries (2009) refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200,000,000) only. Although, there exists no consensus among policy makers and scholars concerning the point at which a business firm is deemed to be small or medium.

The United Nations Industrial Development Organization (UNIDO) identified fifty

definitions of small scale business in seventy-five different countries based on parameters such as installed capacity utilization, output, employment, capital, type of country or other criteria, which have more relevance to the industrial policies of the specific country. However, it was suggested that the SMEs sub-sector may comprise about 87% of all firms operating in Nigeria, excluding informal-enterprises. USAID (2004) defined SMEs as informal businesses employing fewer workers including unpaid family labor. Small scale enterprises are those operating in a formal sector with five to twenty employees; and medium enterprises are those employing 21 to 50 employees.

The Nigerian concepts of SMEs are somewhat contradictory but the Central Bank of Nigeria agrees with the Small and Medium Industries and Equity Investment Scheme (SMIEIS) in their definition of SMEs as any enterprise with a maximum asset base less than N200 million (equivalent of about \$1.43 million) excluding land and working capital, and with the number of staff employed not less than 10 (otherwise will be a cottage or micro-enterprise) and not more than 300 (Laurent, 2009; Ogechukwu & Oboreh, 2013; World Bank, 2013).

### **2.1.2. Social Media**

Eltayib et al. (2018) defined social media marketing as placement of advertisements or

content on social media platforms, such as Facebook, YouTube, Google, and Twitter, account where people can interact with the firm and the firm can promote their goods and services via placing advertisements on the social media pages for targeted customers and including promotional material on such social media posts. A significant number of social media platforms surfaced in the recent years and despite their similarities, they have managed to keep the whole world engaged (Kajongwe et al., 2020). According to Ile et al. (2018), social media refers to content distributed through social interactions. It allows businesses gain access to resources that may not be available to them, which contributes to the development of firm's worthiness, increase customer and supply contacts, facilitates funding and promotes innovation. Consequently, adopting social media tools as underpinning strategic marketing of SMEs are vital for acquiring and retaining customers, maintaining easy communication with all stakeholders (Salam & Hoque, 2019).

Social media can provide "marketing that is more effective, new communication and distribution channels, shorter time to market, customized products, 24-hour online technical support, and online interactive community" (Mukoolwe & Korir, 2016). This is in addition to immediate connectivity with new markets, supply chain

and customers with greater benefits for businesses (Kaplan et al., 2010). Social media (Ndife, 2020) are computer-based technologies that facilitate the creation and sharing of ideas, information, career interests and other forms of expression via virtual communities and networks.

Social media plays positive roles in the domain of marketing and relationship building with customers. The easy entry barrier to social media has increased the adoption of social media platforms by small business owners as a means of achieving business goals (Ghanem & Hamid, 2020). According to Is-haq (2019), business enterprises can increase their sales through the size of their assets and market. As a result of such increase, several strategies are devised to attract sales level and customers through the use of marketing skills of business organizations. This is why SMEs that want to remain in the limelight must aim for market survival and be competitive in the market. SMEs across the world contribute about 60 percent to employment in the business sector. However, sales potentials have attributed for the growth in this sector through the provision of good marketing products of SMEs and its services (Jeremiah et al., 2021).

### **2.1.3. Facebook**

Facebook was launched in 2004 and holds the most promise for retailers in offering varieties of ways to reach and attract new

clients. In 2015, Facebook site was reported to have 750 million active users and, as at second quarter of 2015, had 1.45 billion active users. The number of Facebook users has increase to 2.99 billion over the past few years. Facebook site is ranked as the most widely used social network worldwide. Also, on a daily basis, traffic to the network is always on the rise. This site serves as an extension for online companies that utilize it to connect with customers, display content, promote products, offer services, and brands and attract online shoppers. Facebook can also be used to advertise products and provide a link to a blog post about the business or industry to online shoppers. There are several social media platforms but studies indicate Facebook as the leading site in the world (Kajongwe et al., 2020). Estimates report provided that above 1 million small and medium scale enterprises used Facebook to advertise their business (Nel et al., 2010)

According to Subramaniam and Islam (2014), the Statista also proclaim that Facebook has over 2.9 billion monthly users which no other social media network can offer a matching level of potential exposure. Facebook considered as the first and largest social media network to achieve mainstream success offers an outstanding integrated tools compared to other platforms, like buttons, account logins and photo coverage (Ile et al., 2018). Facebook facilitates users

contact and information from businesses through various buttons on Facebook ads. This allows business owners more opportunities to interact with small business in little time.

Similarly, these features provide companies reasons to communicate with new clients, by clicking buttons that allows them shop easily online (Eltayib et al., 2018). This process is achieved based on their communication preference on conversion goals like send message, shop now, get directions or call now. Interestingly, over 90 million businesses have active pages on the platform as a result of the population of users across different platforms through the use of marketing tools (Kateri, 2021). It is no gainsay that Facebook is among the leading social media platform for social media marketing and other use.

The practice of using Facebook as a social media platform have contributed in generating customer needs and influence sales (Lakshmi et al., 2017). Facebook users claim they visit a page at least once a week. While about 17 percent say they joined the platform to connect with brands. While about 45 percent of users utilize Facebook to know more about products in the market (Ogbari et al., 2016). This is the reason millions of businesses worldwide confirm the effectiveness of Facebook platform. It beari in mind that a single post can communicate with billions of customers and

allows for an easily mix and marketing strategies match (Oyewobi et al., 2021). In the aspect of business perspective, Facebook also developed tools for marketers. The purpose of designing these tools is to target their market, post multimedia content and follow up with their marketing ideologies. Likewise, the introduction of these platforms is also designed to establish viable relationship with their customer base. The simplicity of use of the platform has become a tool for business success especially, for small and medium scale enterprises. This may be a reason why Facebook is the better choice for users.

#### **2.1.4. WhatsApp**

The number of WhatsApp users across the world are about 2 billion as of 2020 (Noor et al., 2017). The number has been increasing tremendously every two years. Statista reported that 1.6 billion users access the messaging app each month (Statista 2019) which is 23 percent above its closest competitor. The messaging capabilities of WhatsApp business subjects it to one of the most important aspects that connects a brand to its audience and customer base. The messaging options provides a company with unlimited free message in multiple formats and timely responses (Ukpere et al., 2014). The major requirement for messaging is the receiver's main phone number. WhatsApp business is another channel through which businesses utilize to interact with clients

when contacts is synchronized. This channel also allows you connect with only your target audience than sending many messages to your contact. Also doing so can help you funnel traffic through various tools like a WhatsApp Send Message Button, Facebook Ads, or a WhatsApp number listed on your Facebook page.

According to Lawal et al. (2022), the introduction of WhatsApp birthed new features on social media, especially its effectiveness in commercial activities. Additionally, global brands, organizations and SMEs have adopted the services provided by WhatsApp Platform to exploit their peculiarities and capacities for their marketing needs (Ewah et al., 2021)

### **2.1.5. Performance**

Performance is perceived as sacrosanct to the survival of SMEs in any nation (Lawal & Adejuwon, 2023). The conventional small business performance is measured using financial ratio variables as explanatory variables. The financial variables that are commonly used include return on investment (ROI) return on asset (ROA), profits, cash flow and sales growth (Kajongwe et al., 2020). The function of government in the performance of SMEs in Nigeria became significant in the recent dispensation of the economy. This is because SMEs play a key role in the informal sector in Nigeria. The performance and survival of SMEs depends on the

favorable parameters that can drive and develop the SME in Nigeria. The link between SMEs performance and economic growth remains complex, and that it remains a necessary component of a country's capability to support economic development (Marolt et al., 2022). SME is the driving force and establish an important mainstay of any nation's economic system (Ndife, 2020). The development of this sector leads to poverty reduction, employment creation and increase of potential entrepreneurs. It also offers linkage development of large industries.

The performance of SMEs has remained a catalyst for change for economic industrialized nations especially in developing world (Jeremiah et al., 2021). Importantly, the performance of SMEs varies according to sectors with their degree of development (Mile et al., 2022). These characteristics such as the capital allocation and requirements, management size and access to market which contributes to the growth parameters of an organization are unavoidable. The quality of performance of SMEs by business owners may determine whether capital investment would grow quickly or whether the growth would involve the innovation of new products or production of new techniques (Madan, 2020). Similarly, the nature of growth rates in nations varies due to the quality of business owners. In addition, production

factors such as land, labor, capital are important to entrepreneurs who establish business ventures.

## **2.2 Innovation Diffusion Theory**

The Innovation Diffusion Theory (IDT) was introduced in 1962 by Everett Rogers which has been adopted in case analysis in the past. It discusses the rudiments for understanding innovation adoption and how individuals undertake decisions on their choices of innovation. IDT theory is diverse in scope across many context, which makes it difficult to adopt a process model when making organizational decision that relates to change or innovation (Straub, 2009). The three main proxies in Rogers' diffusion theory: the social system existing around the adopters/non-adopters of the innovation, the innovation, communication channels used to broadcast information about the innovation, and the time it takes for individuals to move through the adoption process. The nexus between these components helps one to understand individual's preferences to adopt an innovation or not (Straub, 2009).

The theory also adopts five attributes that can influence an individual's decision on whether to adopt an innovation or not: compatibility, advantage, observation, complexity and trainability. Compatibility refers to how an innovation fits with a user's specification. The more difficult to learn the less likelihood for adoption. This is due to the high complexity rate. Relative advantage

refers to how much greater or lesser the benefits of the innovation are compared with the alternatives. Observation occurs once an innovation is adopted and diffused across enough people within a culture system that those who previously had not thought about adopting it, change their minds or at least begin considering adopting the innovation (Hosking, 1993). Trainability refers to adopters that are more likely to accept innovations through testing or experiment before making a decision whether to adopt or reject.

Organizations applying IDT to help analyze current practices and plan for more effective diffusion of innovations may be useful to understanding the impact that Rogers' theory can have in different contexts (Hosking, 1993). For instance, an innovation diffusion approach to examining the adoption of social media by small businesses: "An Australian Case Study," conducted in Australia around small business adoption of social media.

## **3. Methodology**

The purpose of this study is to examine the effect of social media marketing on small scale business performance of SMEs in Borno state, Nigeria. The study is quantitative which allows for measurement and testing of the stated hypothesis to determine the statistical relationship between variables (Creswell, 2013). Survey research design was adopted as the main

research design for this study. The use of questionnaire method was adopted to gather information from respondents. The questionnaire was closed ended questions, which adopted a five-point Likert scale This was administered with the aid of statistical package for social science software and Cronbach’s alpha. According to Gorard (2003), Cronbach’s alpha assesses the extent to which a group of questions are asking for the same basic underlying information. The study made use of statistical tools such as descriptive statistics and simple frequency analysis in testing the statements

on the questionnaire. The target population of this study was the 137 of the selected small and medium scale business owners/managers in Borno state, Nigeria. A sample size of 137 owner/managers of the selected small and medium scale business owners/managers who had been operating the business for more than 7yrs were considered. The sample was determined using Krejcie and Morgan from the selected population using stratified random sampling technique.

**4. Data Analysis and Results**

**Table 1: shows demographic data of small scale business operators.**

<b>N = 137. Male = 100 (72%). Female = 37 (27%)</b>		
<b>Characteristics</b>	<b>Male %</b>	<b>Female %</b>
<b>Age Range</b>		
Under 20s	8 (7%)	6 (5%)
21-25	7 (6%)	9 (8%)
26-30	9 (8%)	12 (10%)
31-40	15 (13%)	13 (11%)
41-50	7 (6%)	3 (2%)
50-60	3 (2%)	8 (7%)
60 and above	8 (7%)	2 (1%)
<b>Occupation</b>		
Manager	35 (35%)	10 (3%)
Employee	65 (65%)	25 (9%)
<b>Educational Attainment</b>		
No formal education	5 (5%)	2
Primary	25 (25%)	5 (1%)
Secondary	20 (20%)	5 (1%)
Diploma	20 (20%)	10 (3%)
Tertiary	30 (30%)	15 (5%)
<b>Social Media Use</b>		
0 to 5 years	30 (30%)	5 (1%)
6 to 10 years	10 (10%)	7 (2%)
11 years and above	30 (30%)	10 (3%)
	30 (30%)	15 (5%)

Source: Field Survey 2022

**Table 2: Cronbach’s Alpha score for the study**

**Reliability Statistics**

Cronbach's Alpha	N of Items
.734	5

Source: Field Survey 2022

The Cronbach coefficient of alpha varies from 0 to 1 and the value of 0.5 or less

**Table 3: ANOVA results**  
**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.786	2	8.893	30.610	.000 <sup>b</sup>
	Residual	38.930	134	.291		
	Total	56.715	136			

Field Survey (2023)

The ANOVA table presented in Table 3 showed the Anova regression estimates which suggests that there is a statistically significant relationship between

**Table 4: Multicollinearity test on variables**  
**Collinearity Diagnostics<sup>a</sup>**

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	FACEB M	WHATA M
1	1	2.991	1.000	.00	.00	.00
	2	.006	22.569	.95	.07	.25
	3	.003	32.090	.05	.93	.75

a. Dependent Variable: PER

The variance rate of independent variable had low collinearity as their coefficients were within the acceptable value range (**Table 4**). Saunders agreed that variance is an imperfect measure of collinearity, which is a condition that can be attributed to more complicated relationships among the predictors than variance can detect. This method is adopted if the predictors is small

generally indicates unsatisfactory internal reliability of data (Tavakol & Dennick, 2011). Scales with coefficient alpha between 0.6 and 0.7 indicate are consistent, reliable and acceptable variable.

performance and all the explanatory variables, of F-statistic of the model which is 30.610 which is significant at 5% level.

in collinearity. The situation would be tedious with more than 12 to 15 predictors. According to Bernard (2011), collinearity exists when independent variables are correlated, especially when two variables strongly predict a third, hence the first two will be correlated. Normally perfect correlation can rarely be faced in a data set, more commonly; the issue collinearity arises

when there is an approximate linear relationship between two or more independent variables. Mertens (2014) suggested that even though a strong relationship may be found between a set of variables and an outcome measure, it is not always possible

to achieve the desired outcomes by manipulating the set of prediction variables (Mertens, 2014).

**Table 5: Model regression coefficients Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	1.683	.497		3.385	.001		
	FACEBM	1.109	.148	.761	7.502	.000	.497	2.011
	WHATA M	-.508	.135	-.381	-3.753	.000	.497	2.011

a. Dependent Variable: PER

**Linear Regressions Analysis**

Having examined the correlation or relationships between independent variables and dependent variables as models that impact the use of social media marketing on the performance of small and medium scale enterprises, the use of facebook and whatsapp were found to be statistically

significant at the 1% level. This suggests that these factors have a significant impact on the performance of SMEs. Therefore, an expression for the relationship between the dependent and the independent variables can be obtained in the form, with a constant, representing the Beta coefficient (B) with value 1.683.

**Table 6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.560 <sup>a</sup>	.314	.303	.539

a. Predictors: (Constant), WHATAM, FACEBM

The R value (.560) indicates a simple correlation between the dependent variable (Performance) and independent variable (Facebook and Whatsapp). There is a low degree of correlation (.560). R squared shows the total variation in the dependent

variable (performance) which can be explained by the independent variable (Facebook and Whatsapp). The Weighted Least Squares Regression is at degree (.314%); inherently not too large. Apparently the column with R2 value

(.303%) represents total variation that the dependent variable.

### **Discussion of findings**

Table 1 gives the result of demographic data of small scale business operators in Maiduguri and indicates that 72 percent (100) of the participants were male while 27 percent (37) of the respondents were female. This implies that many of the selected small and medium scale businesses in Maiduguri metropolis are owned either by men or run by a male employee. The age range category of the findings indicates that that majority of the male business owners are between middle age 31-40 years and are actively using social media for their business communication. However, result from the female business owners reveals that females between age 31-40 majorly have high number of social media use.

The education profile category of the findings indicates that majority of the respondents are well educated and would be expected to be aware about the use of social media in small business.

The period of social media use indicates that the majority of owner/operators of the selected small and medium scale businesses are well experienced in the use of social media in small business and are expected to give reliable information regarding the impact of social media advertising on their business performance. The Cronbach coefficient of alpha is seen to vary from 0 to

1 and values of 0.5 or less usually indicates unsatisfactory internal reliability of data. The reliability data of the service quality dimensions used in the study is confirmed. The inter correlation between variables of the study shows that there was a positive significant relationship between all the study variables of Facebook and Whatsapp use and the performance of SMEs. This finding aligns with the empirical work of (Ghanem & Hamid, 2020). The regression analysis R values for the regression model was determined as 1.683. This indicates the explanatory variables; facebook and whatsapp an effect on the level of performance of SMEs.

### **Conclusion**

The study found that social media use such as (Facebook and WhatsApp) was significantly related with increase in the performance of business success. Hence, small and medium scale enterprises must utilize the use of Facebook and WhatsApp effectively in order to achieve increased customer retention and attention of customers which will have significant impact in their business performance. Also, the study further revealed an interesting relationship on the use of WhatsApp and the performance of small and medium scale enterprises. Hence, small and medium scale enterprises should intensify the use of WhatsApp to promote more business potentials.

### **Recommendations**

The study recommends that SMEs, should identify the precise social media that will have impact on their business performance, especially the role of Facebook and WhatsApp, which are the most prominent among the business sphere.

Similarly, SMEs should be familia with the use of the pages by ensuring that they communicate with customers by sharing and educating them about new proceedings in their business.

SMEs should ensure and endeavor to share instant update to customers as they stand to benefit from increased patronage and loyalty form customers as well as realize a wide coverage of business spread in their business.

SMEs owners should build strong relationships with their customers and produce more engaging content on their social media channels that are geared towards their brand to improve their sales performance.

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## Role of Electronic Customer Relationship Management on Customer Satisfaction and Loyalty in the Nigerian Telecommunication Sector: Pilot Study

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### Abstract

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*This paper pilot tested the influence of electronic customer relationship management (eCRM) as proxied by Ease of use, E-service quality, Enjoyment and Usability on the customer's satisfaction and loyalty in the Nigerian telecommunication sector. Thus, the instrument's reliability and validity were analyzed using small sample data. PLS path modeling using Smart PLS 3.3 M3 software was employed to ascertain the internal consistency reliability and validity of the constructs used in the pilot study. The results showed that the average variance extracted and the composite reliability coefficients, meanwhile, assessment of discriminant validity value of Heterotrait Monotraits (HTMT) is below 0.90. Hence it was concluded that the instrument is valid and reliable.*

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**Keywords:** Electronic customer relationship management, Customer loyalty, Customer satisfaction, Pilot test.

### 1.0 Introduction

Customers are presumed to be one of the most critical stakeholders in any business organization because without the customers, organizations are not likely to succeed. Knowledge of customer behavior goes a long way in ensuring effective marketing policies towards the interest of customers which eventually facilitates positive customer attitude towards the organization (Osagie, John, Geraldine & Ogemdi, 2021). Customer loyalty manifests itself in behavioral consequences including repurchase behavior, spreading positive word of mouth communication, resistance

to counter persuasion and reduced product category search (Farid & Zulkifl, 2021). Businesses around the world spent 126 billion U.S dollars on customer management in 2019, out of which 75 billion U.S dollars was spent on loyalty management (Statista.com, 2021). Through the global report from 2020, it is described that 66% of customers spend more on brands that they're loyal to which shows a clear incentive for businesses to take the plunge into building a meaningful customer loyalty improvement program (Statista.com, 2021). Disloyal customers can amount

to millions of lost revenue and profit. Customers intend to switch service provider when they are not loyal and satisfied (Hait, 2020).

In today's competitive and changeable market place, mobile phone service industry is gaining popularity and as mobile usage is growing rapidly, telecommunication marketers are developing new strategies to take advantage of the potential customers. Mobile phone is the most promising and high growth area of telecommunication, with more than 1.7 billion global subscribers and about 80% of the world's population covered by mobile networks (Robert, 2019). In Africa, declining customer loyalty seems to be a disturbing issue for most companies in spite of heavy investments in service improvement. This is because the consumers' pattern of expectation is evolving even faster accompanied by low satisfaction and high switching behavior (Gajanayake, 2019).

In Nigeria, one of the most populous countries worldwide, in the most recent measured period, there were over 100 million mobile users in Nigeria (Statista.com, 2021). In 2020, Nigeria had 99.05 million internet users. This figure is projected to grow to 108.27, 120.24, 131.68, 142.39 and 152.28 million by 2021, 2022, 2023, 2024 and 2025 respectively (Statista.com, 2021). Bello-Iman and

Obadan (2004) and Obinna (2015) observed that the rapid diffusion of GSM services is accompanied by low satisfaction and high switching behaviour. Customer satisfaction is a fundamental goal of marketing as the purpose of marketing is to satisfy customers. Barriers to customer loyalty in Nigerian telecommunication sector and the problems lingers such as; complicated tariffs, lower customer satisfaction, inefficient service delivery, interconnectivity problem, deceptive promotions, unsolicited promotions, unsolicited short messages (SMS), call drops, and unfairly and unjustifiable billings (Odunlami & Matthew, 2015). Therefore, the GSM providers in Nigeria are faced with the challenges of demonstrating customer-focused and continuous service improvement, as a way to ensuring customer satisfaction, brand supremacy and ultimately customer loyalty (Jide, 2020).

### **1.2 Research Problem**

Technological change has shifted competition from price and core service to value-added services (Ozer, 2020). Due to the many alternatives available to customers, they can easily switch service providers. The telecommunication industry has one of the highest customer churn rates in the business world, often exceeding 40 percent annually (Statista.com, 2021). Furthermore, mobile phone service providers are losing 2 to 4 percent of their

subscribers monthly; disloyal customers can amount to millions of lost revenue and profit. Theoretically speaking, customers intend to switch service provider when they are not loyal and satisfied (Jane, 2019).

Most previous researches indicated electronic customer relationship management on customer loyalty. These include: Mang'anyi and Govender (2017), Mehdi and Mohammad (2017), Mohammad and Sahar (2019), Pushpender and Anupreet (2019), Muhammad, Muhammad and Muhammad (2020), Hadeer, Abdelaty and Heba (2020), Desia and Anas (2021), Slamet, Mirza, Denok, Nurjaya, Humairoh, Ahmad, Sedarmayanti, Heri and Marissa (2021) Aini, Riska and Michael (2021), Fariborz and Maryam (2021), Jennifer and Millie (2021), Sameh and Romdhane (2021), Farid and Zulkifli (2021), Tasya and Dudi (2021). Although recommended studies are needed to elaborate more findings for instance: first, Pushpender and Anupreet (2019) recommended that the employees point of view should be taken into account and the model can be expanded from banks' perspectives also. Generalizability is lacking and other variables may also be used to measure E-CRM. Second, Jennifer and Millie (2021) suggested the evaluative features of E-crm and the effect of loyalty concerning customers in older age groups through a study to be conducted with respondents

from different origin and also focus on the pre-, at- and post –purchase features of E-crm from a business perspective. Lastly, a study conducted by Slamet et.al (2021), justified the conduct of future research in other places or countries and other independent variables to get new results that are relevant in a study related to increased consumer loyalty.

Based on this review, this study seeks to adopt a multidimensional construct of Electronics customer relationship management to include four dimensions of (Ease of use, E-service quality, Enjoyment and Usability). Anuriza and Kusuma-wardhani (2021) recommended that future study may add or replace more variable that are more specific with the e-CRM program. The identification of various factors on similar studies has been done on the basis of the outcomes of numerous studies conducted in various contexts and cultures, and the suitability of these factors should be empirically examined in future research.

From the methodological angle, an overall review of the literature on electronic customer relationship management on customer's satisfaction and customer loyalty is expected to be carried out with broader range of respondents with bigger sample size from the points of view of both the company and their customers (Anuriza & Kusumawardhani, 2021). To fill the gap therefore, the current study adds larger

sample size to improve the generalization standard of finding. Therefore, in line with previous research and suggestions, customer satisfaction stands as a mediator because it is considered as a major determinant for building loyal customers (Baron & Kenny, 1986). Maslow (1970) implied that companies can achieve a consistent customer loyalty by focusing on consistent innovative practices in products and services development. The implication of the above discussion is that with high customer satisfaction, GSM customers are attracted, made happy, satisfied, and have an increased propensity to stay longer with their GSM service provider. Thus, the aim of this study is to investigate the mediating effect of customer satisfaction on the relationship between electronic customer relationship management and customer loyalty of Telecommunication sector in Kano metropolis.

## **2.0 Literature Review**

### **2.1 Customer Loyalty**

Customer loyalty is defined as quality of being loyal or faithful, that is, one's loyalty to an object. According to Jumaev and Jalal (2012), customer loyalty refers to situation where a customer does not only repurchases goods or patronizes services again but also has positive commitment and attitude towards service companies, for example by recommending others to buy. Furthermore,

according to Velnampy & Sivesan (2012), customer loyalty is a habit of repetitive buying behavior, high connection, and affiliation in their choices, and is characterized by external information seeking and alternative evaluation. Oliver (1997) defined customer loyalty as a sincere commitment towards buying a particular brand of product or service repeatedly in near future despite marketing efforts and situational factors which have the potential to change the customer's switching behavior. It is termed as the measure of achievement of the supplier in maintaining and retaining long last mutual relationships with the customers (Alhaio et al., 2012; Oumar et al., 2017). Customers are loyal with those companies who provide better high end services, quality customer support, convenient and trusted privacy policies (Leverin & Liljander, 2006). Customer loyalty tends to generate more profit to the organization (Khan & Khawaja, 2013) as it costs less to retain existing customers than to acquire a new customer (Reichheld, 1996). Customer became loyal because of the experience they gained from their transactions with their companies (Pine & Gilmore, 1999). Loyal customers provide positive word of mouth by recommending their companies' products/services to their friends and relatives (Mulyono & Situmorang, 2018). Customer loyalty is an outcome of trust and

commitment. The higher the trust and commitment towards a particular product/service or a brand, the higher is the customer loyalty (Sudhahar et al., 2006; Maroofi et al, 2012). Loyalty of customer towards a particular organization is an important aspect for various organizations by which organizations become more profitable. Hence, it is vital for an organization to handle the grievances of customers so that customers remain attracted to the organization. Customer loyalty is simply a buyer's deeply held commitment to stick with a product, service, brand or organization consistently in the future, despite new situations or competitive overtures to encourage switching. Loyalty is measured by taking into account the probability of repurchase (Gursoy, Chen & Kim, 2005).

## **2.2 Electronic Customer Relationship Management (E-CRM)**

E-CRM is defined as the combination of hardware, software, application and management commitment (Dyche, 2001). The evolution of information and communication technologies (ICTs) has changed the behavior of customers towards business strategies (Daud & Aziz, 2019). Internet technology provides opportunities to market services and build deeper relationships with their customers (Fjermestad & Romano, 2003). The

traditional customer relationship management is a process of identifying, creating and retaining profitable customers by maintaining long lasting customer relationships over the time. When these activities are delivered with the help of internet, then E-CRM is applied (Hendriyani & Raharja, 2018). E-CRM refers to the marketing activities, tools and techniques which are delivered over the internet using various technologies such as websites, emails, data mining and data warehousing with the aim of building and improving long lasting mutual relationships with customers (Kelley et al., 2003).

In the mid1990s, there was rapid advancement in internet technology which has led to the development of E-CRM. E-CRM encompasses all the forms of customer relationships which can be managed over the internet with the help of web browsers or various electronic touch points (Bataineh, 2015). It is the latest technique which companies are using to enhance and increase their marketing skills and capabilities (Al-Dmour et al., 2019). Through E-CRM, customers can have direct access to their services as it provides multiple electronic channels, thus, termed as customer-facing or outward facing technology (Bernett & Kuhn, 2002). Electronic CRM is more technical oriented and adopts advanced ICTs tools whereas traditional CRM is more human oriented

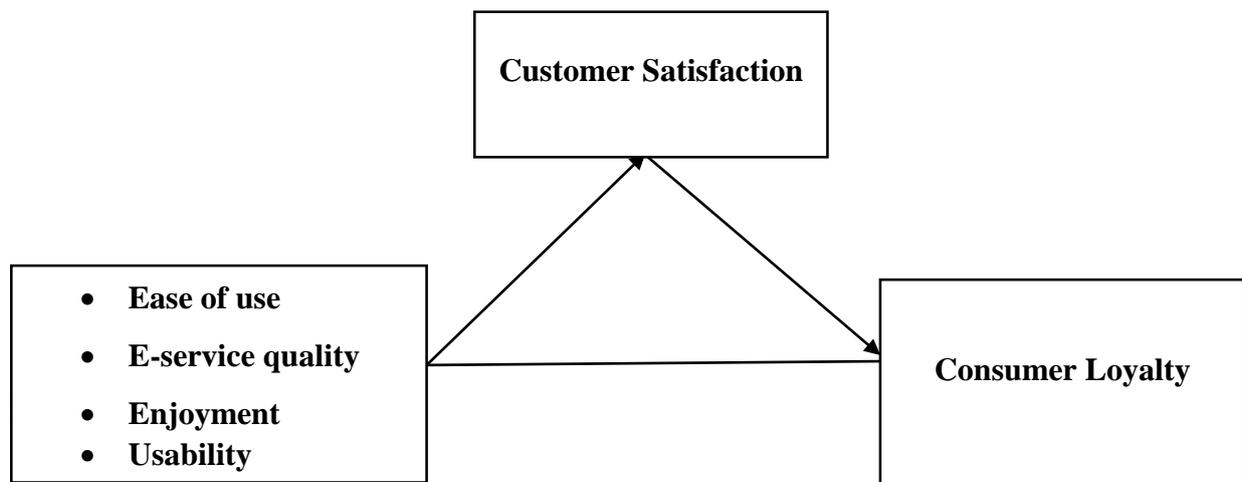
and based on personal approach (Bhatnagar & Saxena, 2013).

### 2.3 Customer Satisfaction

Customer satisfaction has been considered as an important aspect of organization's success in today's highly competitive environment. Oliver (1997) defined customer satisfaction as a pleasurable moment which the customer feels while they consume something. It is the state of mind of the customers towards a product or a service that he/she uses in return of customer's expectation. Customer satisfaction is the difference between what the customer expects from the product/service and what he/she actually gets from that product/service (Farhadi et al., 2012). Thus, customer satisfaction is termed as the trade-off between the customer's expectation and the performance achieved. The higher the performance as compared to

expectation, the higher would be the customer satisfaction (Mulyono & Situmorang, 2018). Customer satisfaction is not an end itself as previous research advocated that customer loyalty is the direct outcome of customer satisfaction. If a customer is satisfied with the product or service, the probability that he/she uses that product or service increases (Chuang et al., 2012). Also, a highly satisfied customer provides a positive word of mouth for the product/services/company/brand (Bataineh, 2015). Satisfaction has primarily been conceptualized as resulting from a comparison of the actual delivered performance with customer expectations. Satisfaction is defined as a person's feeling of pleasure or contentment from comparing his expectations with the provided products, outcomes and perceived performance (Kotler & Keller, 2016).

### 2.4 Conceptual Framework



### 3.0 Methodology

The study adopted the cross-sectional survey approach so that responses can be retrieved at a single point in time. The study used small sample of population in which 60 questionnaires were distributed to all academic staff of Kano state polytechnic which comprises: School of Environmental Study, School of General Studies, School of Management, School of Rural Technology and Entrepreneurship and School of Technology. This is to bridge the existing gap because there seems to be slight or no empirical study that examined the underlying issue within the study area. In stratification, the strata are formed based on members' shared attributes or characteristics, different schools of education like school of environmental studies, school of general studies and school of management. The study used

stratified sampling because of its advantage of error of estimation produced will be reduced, and then, would be produced when using simple random sampling. Additionally, stratified random sampling was chosen over other sampling technique in order to achieve the goal of inferences about the strata within the population of the study so as to draw conclusions effectively, A PLS path modelling using Smart PLS 3.0 M3 software (Ringle, Wende, & Will, 2005) employed to ascertain the internal consistency reliability and construct validity of the constructs used in the pilot study. In particular, PLS Algorithm (Geladi & Kowalski, 1986) was calculated to obtain the average variance extracted and the composite reliability coefficients. Bagozzi and Yi (1988) as well as Hair et al. (2011) suggested that the composite reliability.

**Source: Directorate of Academic Planning (2022)**

S/NO	Schools	No of Staff
1	School of Environmental Study	55
2	School of General Studies	62
3	School of Management	108
4	School of Rural Technology and Entrepreneurship	45
5	School of Technology	280
	<b>Total</b>	<b>550</b>

### 3.1 Results

*Reliability* refers to the extent to which a measurement of a phenomenon provides stable and consistent results (Carmines &

Zeller, 1979). Reliability is also concerned with repeatability. For example, a scale or test is said to be reliable if repeat measurement made by it under constant

conditions will give the same result (Moser & Kalton, 1989). Composite reliability using Smart PLS Version 3.3 is conceptually related to Cronbach' alpha in that it assesses reliability via a ratio of the variability explained by items compared to the total variance of the entire scale (Bentler, 2007; Geldhof et al., 2014; Raykov, 1997a, 1997b, 1998). In current study, the reliabilities of each construct are above 0.70 which suggests that contract

Table. 3.1: Reliability of Constructs (n=60)

data in the present study are reliable, because according to Hair et al. (2011) the acceptance range of Cronbach alpha values is from 0.81 to 0.95. Therefore, on the basis of current findings, all learned contract values are > 0.70. About the composite reliability, the acceptance range varied from 0.81 to 0.95, so our results explain that it is higher than the recommended cutoff value of 0.70 (Fornell & Larcker, 1981).

Latent construct	No. of indictors	Average variance Extracted	Composite reliability
Customer loyalty	5	0.72	0.86
Ease of Use	5	0.82	0.89
E-Service Quality	5	0.79	0.92
Enjoyment	4	0.88	0.81
Usability	4	0.76	0.95
Customer Satisfaction	5	0.89	0.82

Source: Researcher (2023)

Validity of measuring instrument refers to the extent to which the instrument is measuring what is intended to be measured. It explains how well the collected data covers the actual area of investigation (Ghauri & Gronhaug, 2005). Applying Construct validity method which comprises an exploratory factor analysis using principal component analysis that are carried for determining the construct validity and also used to confirm items loading on the correct factors as known by the researcher (Venkatraman, 1989). Previous researcher used Fornell and

Larcker (1981) for assessing the discriminant validity. However, recently, Henseler (2015) disapproved the Fornell and Larcker criterion. They found out that the previous criterion is still lacking in establishing the uniqueness between constructs that encouraged them to recommend a more robust approach that could capture the discriminancy among the constructs under study. Heterotrait-monotrait's (HTMT) criterion has high sensitivity and specificity in detecting discriminant validity problems and more empirical evidence is needed to use this

approach. However, to measure discriminant validity, model setup along with how conservative, the researcher wants to be in measurement of discriminant been established between reflective constructs.

validity should also be kept in view (Henseler, 2015). If the HTMT value is below 0.90, discriminant validity has

Latent variables	CPI	EU	E-SV	EN	USB	CS
1 Consumer loyalty	-					
2 Ease of Use	0.69	-				
3 E-service	0.62	0.72	-			
4 Enjoyment	0.57	0.56	0.79	-		
5 Usability	0.63	0.53	0.56	0.69	-	
6 Customer Satisfaction	0.27	0.56	0.60	0.84	0.87	-

**HTMT Results**

**Source: Researcher (2023)**

If the HTMT value is below 0.90, discriminant validity has been established between reflective constructs.

**Conclusion**

This study is ongoing research as a master’s dissertation on the influence of electronic customer relationship management (Ease of use, E-service quality, Enjoyment and Usability) on customer’s loyalty with the mediating effect of customer satisfaction of telecommunication sector in Kano metropolis.

Kano was specifically chosen for the study because it was recognized as one of the largest cities that engage in different types of businesses in Nigeria, as recorded during the 2006 National Census exercise.

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