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## **SWOT ANALYSIS ON 2023 PRESIDENTIAL CANDIDATES IN NIGERIA**

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**Abstract:** *Electioneering is at the very heart of democracy and its sustenance in all climes where it is in practice. This being a statement of fact, it would therefore be apt to posit that there can be no viable and vibrant democracy without elections, as it is through election(s) that gives the people the rare opportunity to have a say in how and who governs them. Elections are thus at the core of the operationalization and consolidation of democracy. Accordingly, this paper examines the just concluded general elections in Nigeria with a view to profiling the level of preparedness of the four front-line candidates of Senator Bola Ahmed Tinubu, Mr. Peter Obi, Alhaji Atiku Abubakar and Engr Rabi'u Musa Kwankwaso. The study adopted the SWOT analysis, which implies the use of Strength, Weakness, Opportunity and Threats to analyze the candidates' level of preparedness for the elections. The paper found that, of the four major candidates, the candidate of the All Peoples' Congress (APC), Bola Ahmed Tinubu, appears to stand a better chance not just to win the election but also to govern, this is because of his track records of mentorship which spread across the length and breadth of the country and his track records as a one-time governor. The paper suggested among other things that human capacity development and viable political mentorship are very potent and important investment in political leadership.*

**Keywords:** *SWOT analysis, Presidential, Candidates, Elections, Nigeria.*

### **Introduction**

Election, the world over, is a major ingredient in the promotion of democracy; just as democracy is the only system of government that is built on the consent of the people. Democracy thrives in an atmosphere where the rule of law has primacy over and above the rule of men, (Efebeh, 2015). In the Nigeria democracy space, electioneering system is designed for a four year political life span, this is aptly captured in the Nigerian 1999 Constitution as amended and also the Electoral Act 2022 as amended. The current electoral cycle would elapse on May 29, 2023, thereby creating the needed vacancies for new elected politicians to assume offices after undergoing all the processes and declared winner by the Independent National Electoral Commission (INEC), the body saddled with the responsibility of conducting elections in Nigeria. The 2023 General Elections is scheduled for February 25 and 11 March 2023 respectively, later postponed to 18 March 2023. All the political aspirants for the elective offices are already canvassing for votes into various offices in line with the INEC guidelines as enshrined in the Electoral Acts. Election is defined as the formal process of selecting a person for public office or of accepting or rejecting a political proposition by voting. In some cases, electoral forms are

present but the substance of an election is missing, as when voters do not have a free and genuine choice between at least two alternatives, (Gibbins 2023).

This paper is discussing some of the attributes and weaknesses of four frontline presidential flag bearers namely Senator Bola Ahmed Tinubu of All Progressive Congress (APC) Mr Peter Obi of the Labour Party(LP), Atiku Abubakar of Peoples Democratic Party (PDP) and Engr Rabiun Musa Kwankwaso of the New Nigerian Peoples Party (NNPP). There are strategic techniques developed by scholars meant to guide in the shaping of thoughts and identifying the qualities of businesses and stakeholders in the political arena. Some of these strategies include scenario planning; portray five force frameworks, PESTEL, SWOT analysis among others. However, SWOT analysis is distinct and appeals more to researchers and other scholars as a tool of analysis due to its tremendous advantages over others. SWOT analysis is a strategic planning and strategic management technique used in identifying a person or an organizational strength, weakness, opportunities and threats related to business competition, governance or project planning. It is sometimes called assessment situational analysis. The acronym SWOT stands for Strength, Weakness, Opportunity and Threats. SWOT analysis is one of the most effective strategic techniques for analyzing an institution or leaders. The strategy is historically credited to Albert Humphrey in the 1960s though this claim is being contested in some academic quarters. However, the SWOT model remains a veritable technique deployed in identifying the competence and weakness of a leader or an institution.

The 2023 General Election in Nigeria was scheduled for 25 February and 11 (and later postponed to 18) March 2023 in which a new president and other political office holders to emerged preparatory for swearing in May 2023. There are numbers of presidential candidates cleared by Independent Electoral Commission (INEC 2022) to contest for the election. However, four of the presidential candidates stand out and one of them is likely to emerge victorious in the election. Nonetheless, some parameters such as the size of the party, resources at their disposal, membership, disposition or choice of the electorates, spread across the country, the popularity of candidates in Nigeria political space among other factors would go a long way to determine the winner. Some of these frontline presidential candidates include the following in no particular order:

- a. Senator Ahmed Bola Tinubu - All progressive Congress (APC).
- b. Engr Dr Rabiun Musa Kwankwaso - New Nigeria Peoples Party (NNPP).
- c. Mr Peter Obi - Labour Party (LP).
- d. Mr. Atiku Abubakar - People Democratic Party (PDP).

These candidates have large followership and any of them has what it takes to win an election. INEC cleared 18 Political parties to contest for the 2023 General Elections. The name of the candidates and their political parties is at Annex A. However, this paper would therefore narrow on the candidature of Senator Bola Ahmed Tinubu of APC. The paper would cover Review of literature on General Elections in Nigeria and SWOT analysis of the APC candidate. The paper is divided into three parts which are:

- a. An Overview of General Elections in Nigeria since 1999.
- b. SWOT Analysis of 2023 General Elections, Case Study of candidates of APC, LP, PDP and NNPP.
- c. Conclusion.

### **An Overview of General Elections in Nigeria Since 1999**



The present democratic dispensation started in 1999, since then however, Nigeria have conducted five general elections in 1999, 2003, 2007, 2011, 2015 and 2019. Of the five general elections, **four of them were conducted by democratically elected governments.** Election is an important component of democratic governance; in fact, a major determinant of how democratically-compliant a state is, the more a state adheres to, and incorporates the core principles of elections, which are freeness, fairness, and credibility, the more acceptances it would receive from the international community, (Nwankwo, 2006; Efebeh, 2018). This is so because, the acceptance of a state in the comity of nations is seen as a boost to the local economy and the acceptance is largely tied to the credibility of the elections that produced the leadership, (Efebeh & Okereka, 2020). Such acceptance also enhances the chances of cooperation among states in times of global emergencies such that the COVID-19 presented before the global community a few years ago, (Efebeh, 2020). The 1999 General Election had a total of 30, 280, 052 voters turnout for the election. The eventual winner, the PDP Presidential candidate, General Olusegun Obasanjo (rtd.) polled a total of 18, 738, 154 (62. 78%) to defeat his closest rival Chief Olu Falae of the Alliance for Democracy (AD) and All Peoples Party ticket (APP) with 11, 110, 287. The election to a large extent has some degree of credibility and the contention and post-election violence were minimal, (INEC, 2022). The 2003 Presidential elections were held in Nigeria on 19 April 2003. The result was another victory for incumbent Olusegun Obasanjo of the PDP, who defeated his closest opponent Muhammadu Buhari by over 11 million votes. (INEC, 2022). It was alleged that the elections were marred with malpractices by election observers, opposition parties and some civil society organizations. International observers, including the European Union, confirmed irregularities in 11 of the 36 States. Thus in many cases votes were pre-filled or results were later amended. Nearly all opposition parties refused to recognize the result. Election Observers reported, however, that up to the Saturday afternoon no elections and only some polling stations had opened. (EU, 2003). The 2007 General elections were held in Nigeria on 21 April 2007 to elect the President and National Assembly members while Governorship and State Assembly elections were held on 14 April. Alhaji Musa Umaru Yar'Adua of the PDP won the highly controversial presidential election, and was sworn in on 29 May 2007. Election observers from the European Union described the elections as "the worst they had ever seen anywhere in the world", with "rampant vote rigging, violence, theft of ballot boxes and intimidation, (EU, 2007). Election monitoring groups gave it a dismal assessment. Chief European Union observer Max van den Berg reported that the handling of the polls had "fallen far short" of basic international standards, and that "the process cannot be considered to be credible. He cited poor election organization, lack of transparency, significant evidence of fraud, voters' disenfranchisement, violence and bias. One group of observers said that at one polling station in Yenagoa, in the oil-rich south, where 500 people were registered to vote, more than 2, 000 votes were counted. Despite the widespread rigging and call for cancellation, on April 23, Musa Yar'Adua of the PDP was declared the winner by INEC with the highest votes of 24, 638, 063. Muhammadu Buhari of the All Nigerians Peoples Party (ANPP) was second 6, 605, of 299 votes while Atiku Abubakar of Action Congress was placed third with 2, 637, 848 votes (INEC Website), both Buhari and Abubakar rejected the results. The opposition candidates believed the election was rigged in Yar'Adua's favor as announced by the then INEC Chairman Prof. Maurice Iwu. According

to Late Musa Yar'Adua the winner of the election, he stated that "The election that brought him to the office was marred with irregularities and promised a far reaching electoral reform to be implemented before the next election. This informed the composition of Justice Uwais Electoral Reforms by late President Musa Yardua. Unfortunately, despite the good recommendations of Uwais report, it was not implemented. The 2011 General Election was originally scheduled for 2 April, however it was later postponed to 4 April 2011. According to Attahiru Jega, the then INEC Chairman stated that "The commission weighed all the options and considered the wide-ranging counsel of Nigerians and decided to rescheduled all the elections for Saturday, April 9, senate and house of representatives elections; Saturday, April 16, presidential elections; Tuesday, April 26, state houses of assembly and governorship elections. (Jega 2011). Some parties refused to partake in the election as a protest.

The election was held eventually and was reported in the international media as having run smoothly with relatively little violence or voter fraud in contrast to previous elections, in particular the widely disputed 2007 election. Indeed, at least one observer pronounced them the most smoothly run elections held since the restoration of democracy 12 years earlier (Nossiter, 2011). The United States State Department said the election was successful and a substantial improvement over 2007, although it added that vote rigging and fraud also took place. Johnnie (2011) also noted that irregularities, such as underage voting and snatching of ballot boxes were reported, Buhari claimed that his supporters in the south were not allowed to vote. The final result as declared by INEC, Good luck Jonathan was declared winner with a total vote of 22, 445, 187, while Muhammed Buhari of Congress of Progressive Change (CPC) came second with a total of 12, 214, 853. The Chief Observer of the European Union Election Observation Mission (EU EOM), Alojz Peterle, during the presentation of the Mission's Final Report remarked that on the overall, the 2011 elections marked an important improvement compared to all polls observed previously by the European Union in Nigeria. However, short comings were noticed and elements identified which need to be enhanced (Peterle 2011). In total the EU EOM has presented 50 recommendations to further improve the Legal Framework, Election Administration, Voter Registration, Political Parties, Voter Education, the Media, Human Rights, Women Participation in the Electoral Process, Petition and Appeals, Polling and Collation and Follow-up and Public Support. The Nigeria's 2015 presidential election was the fifth in a row since the military left the political scene in 1999. PDP which has been the ruling party since 1999 faced its toughest opposition in APC which was formed on February 6, 2013 with the merger of Action Congress of Nigeria (ACN), Congress for Progressive Change (CPC), All Nigeria People's Party (ANPP) and a faction of the All Progressive Grand Alliance (APGA) (The Nation, 2015).

The March 28 presidential election was quite successful although, there were hitches in some polling units across the country due to late arrival of electoral materials and the ineffectiveness of the Smart Card Readers. Former military ruler, General Muhammadu Buhari (rtd) emerged the winner of the presidential election. The election was the fourth time running that Buhari will be contesting as a presidential aspirant. Buhari won with a total number of 15, 424, 921 votes as against Goodluck Jonathan's 12, 853, 162 votes (INEC website). Buhari's historic victory marked the triumph of democracy as it was the first time that an opposition party will upstage the incumbent government in Nigeria through legitimate means. All the six general elections conducted during the Fourth

Republic in 1999, 2003, 2007, 2011, 2015 and 2019 are known to have exhibited different levels of violent related cases (Nwolise, 2007). While the 1999 and 2003 general elections were criticized by election observer groups on grounds of non-transparency, lack of accountability, intimidation of voters and conflict of different kinds; more violent related cases were recorded in the general elections that brought President Yar'Adua into office in 2007 more than previous elections in the Fourth Republic. The post-election violence that followed the 2011 General Elections was widely condemned for its widespread destruction of lives and property, especially in the Northern region. The 2015 General Elections appear to be relatively more peaceful and credible; they were non-the-less totally devoid of violent related cases. Needless to reiterate here, the effects of electoral violence on Nigeria's political image has been most damaging to the country's path to democratic consolidation (Adebisi and Loremikan, 2013).

Consequently, there were serious doubts from several quarters including the international community, on the ability of the country to conduct a free and fair election devoid of electoral malpractices, security lapses, and sustained by independent electoral body and judiciary. The suspiciousness that usually accompany the administration of a free and fair election by the electoral body in Nigeria, coupled with an aged long history of bias and manipulation of elections outcome by successive governments necessitated the introduction of an interventionist measure in form of election observation group, (Loremikan 2013). The passing of the amended electoral act 2022, has further strengthen the credibility of forthcoming election particularly the use of electronic devices such as the Bimodal Voter Accreditation System (BVAS) among other measures as captured in Section 47 of the Electoral Act as amended which gives legislative backing for smart card readers and any other voter accreditation technology that the Independent National Electoral Commission (INEC) deploy (Electoral Act 2022). The BVAS was used during the Osun election and adjudged to be the game changer and it would also reduce rigging to the barest minimum in the 2023 Elections.

## **SWOT ANALYSIS OF THE FOUR FRONTLINE CANDIDATES**

The SWOT analysis is a credible technique used to identify the quality of potentials of existing political office holders or aspiring politician. It could also be used to examine the strength and integrity of an institution. The focus of this SWOT Analysis is on the front line candidates in the 2023 General elections.

### **Mr. Bola Ahmed Tinubu of the APC**

**Strength** Bola Ahmed Tinubu was born on 29 March 1952. Senator Tinubu is a veteran politician who has been in the political arena for over three decades. He has held key political offices which included but not limited to Governor of Lagos State, Senator of Federal Republic of Nigeria, and party leader among others. His track record in the Nigeria politics is a confirmation of his unrivaled capacity to lead at all levels. Senator Tinubu demonstrated measurable executive capacities based on his eight years as the Chief Executive of Lagos States. (Oke, 2023). His strength in the political landscape is highly impressive, positively contagious and cut across different strata. Ahmed Tinubu has a huge followership in western Nigeria and northern part of the country. He is unarguably a political tsunami that has emerged and sweeping the west, south and northern Nigeria. He

is the most influential Nigeria politician today and the most influential in the western Nigeria after the demised of Chief Obafemi Awolowo (Faleke 2023). This assertion was further resounded with Muhamadu Buhari's emergence as president of Nigeria as it was unarguably Tinubu's magic wand that gave Buhari the much needed victory after several futile attempts to the exalted office. The alliance of Buhari's party CPC and majorly with AC in 2013 changed the tide against the ruling PDP (Alake 2022). Tinubu is a very courageous, detribalized, rational and firm politician. He is versatile and so endowed in political economy dynamics of not only Nigeria and Africa but also in the global space. Tinubu's grasp of international politics, conflict resolution and diplomacy is quenching and reassuring. (Gbajabiamila 2023).

Bola Tinubu is a mentor in chief. Mentorship is one of his major attributes as evident in the subsequent appointment held both at states and national levels by most of the aides who served as his appointee when he was the Governor of Lagos state. Tinubu's human capital development is highly exceptional and worthy of emulation (Adamu 2023). He has over the years scouts, build, mentor, nurtured and guided some of his former aids to strategic positions in Nigeria and these include the sitting vice president of the Federal Republic of Nigeria Yemi Osibanjo, Raji Fashola, Rauf Aregeshola, Lai Mohammed, Femi Gbajabiamila and Akinwumi Ambode. Others are the current Governor of Lagos State Babajide Sanwo-Olu, Governor, Ogun State Dapo Abiodun, Babatunde Fowler, Hon Abiodun Faleke and a host of others. It is convenient to remark that, no individual in this current generation of Nigerian Politicians can equal his political credentials. There is no contestation or any iota of doubt whatsoever that Tinubu's scouting and mentorship abilities are transformational and mirroring. (Sanwo-Olu, 2022). Senator Tinubu's strength is all encompassing and he is a master strategist. He designed a master plan for Lagos state during his tenure as governor and it is being maintained by his successors. He created and enabling environment for businesses to thrive. He made deliberate efforts towards ensuring that Lagos state commands all the prerequisite of ease of doing business in Lagos and by extension Nigeria. One of the major steps he took was the establishment of the Rapid Response squad (RRS) which is a section of the Nigerian police that is well equipped and funded through the Lagos State Security Trust Funds (LSSTF). The LSSTF is funded by players in the private sectors, well-meaning individuals and the Lagos state government. The RRS was saddled with the responsibility of curbing crimes in Lagos State and its environs. This security outfit helped in no small measures in reducing crime rate in Lagos state to the barest minimum. The outfit is so successful so much that other states have adopted same in their various states.

The model has been understudied and replicated by Osun, kano and Delta states among others. The relative peace in Lagos State paved way for massive investment in conjunction with the liberalization of the Lagos economy environment that encourages private participation in businesses. These policies endeared Lagos to investor from different walks of life and hence became an investment destination for multinational, individuals and corporate organizations. The state was rated the fifth largest economy in Africa (ICIR 2016). This signifies the crucial role security plays in investment considerations. Therefore, Security and development are symbiotic. Security is development and without development there cannot be security, (Mcnamara 1995). Some of the Mega investment in Lagos state that makes its investment destination and that would multiply the IGR of Lagos and Nigeria at large includes the recently Commissioned Lekki Deep Sea Port, the about

to be commission Dangote Petrochemical Refinery, the multi-billion dollar Eko Atlantic and the mono rail. Others are the relocation of headquarters of international oil cooperation to Lagos and consistency in government policies among others. The aggregates of these would bring in massive foreign exchange to Lagos and Nigeria and would further expand the business net within Lagos and other contiguous states of Ogun and Oyo States respectively. Bola Tinubu master plan for Lagos is undoubtedly unfolding according to plan. Senator Tinubu leadership acumen need not be overemphasized. He also established a number of institutions that has continue to distinct Lagos from other states and they include, Lagos State Traffic Management Authority, (LASTMA), Lagos State Waste Management Authority (LAWMA), Lagos State Metropolitan Area Transport Authority (LAMATA) among others. He established a strong base for IGR which has helped in raising Lagos IGR from 600m to 50 Billion Naira monthly (Shettima 2023). He was the first to motivate Judges and Magistrates with higher salaries than Federal Government, first state to digitalize civil service, his dexterousness and prudence in creating and sustaining the Local Governments and Local Council Development Authorities despite attempts by the Obasanjo presidency, to undermine him for creating additional local government which is a constitutional provision. His ability to sustained Lagos State when the then President Obasanjo held the allocation of LGAs in Lagos State for years, thereby forcing him to think out of the box in order to keep the state afloat was ingenious and legendary. According to Obasanjo. *I am not a politician I am a decorated soldier, an army general. If you are looking for a thorough bred politician in Nigeria visit Bourdillon Lagos, there you find one. However, politics has no permanent friend or enemy. If you remind me of what Bola said about me four years ago, have you reminded yourself of what I did to him and his Lagos government about 20 years ago? I almost crashed his government and state. No governor or government from 1999 till date would have survived what I did to Bola and Lagos. He survived it because, he has the magic wand and i hope he get the chance to wave the wand over Nigerian state,* (Obasanjo, 2014).

Tinubu is a party man who believes in party philosophy. He is one of the founders of the AC and has kept faith with the party until the mega merger that transformed into APC for the purpose of wrestling power from the PDP at the Centre. He provided the AC platform for most politicians including, Muhammadu Buhari, Atiku Abubakar and Nuhu Ribadu in the pursuit of their political desires of becoming Nigerian President. It is pertinent to states that, the APC has a total of 21 states out of the 36 states under his control and going into the elections. This is a big advantage over all other contenders. Tinubu is just a political movement with solid structures across the country, the reason he was given the title of (Asiwaju), which in Yoruba culture, is reserved only for remarkable leaders. Bola Ahmed Tinubu, Governor of Lagos State, earned this pre-eminent title following the leadership traits which he exhibited during his first term in office. He also bears the title of (Jagaban) which means a warrior sin Borgu Kingdom of Niger State. These achievements constitute a solid strength for Senator Bola Tinubu which stands him out among all other presidential candidates for the 2023 General election.

**Weakness.** Tinubu major weakness is the alleged failing health. Members of the opposition particularly the PDP believed that Tinubu has medical challenges and might not be mentally and physical dispose to lead a complex country like Nigerian. It was alleged that he is suffering from dementia and other health complications (Dino 2023). Though,

this has been debunked by Tinubu's handlers and Tinubu himself, one of which is the famous indoor bicycle exercise that went viral last year among others. Another weakness is the muslim muslim ticket of the APC. Tinubu is a muslim from the south west and Kashim Shettima his running mate is also a muslim from the north east. This could constitute a challenge for Tinubu aspirations in the forthcoming election as Nigeria is a secular state and also religiously sensitive. The allegation of his involvement in drugs is another challenge that needs to be addressed by his handlers. According to Atiku, as a custom officer, I blocked Tinubu from bringing drugs into Nigeria (Sahara 2023). However, these are still within the realm of speculations as he has not been convicted by a court of competent jurisdiction, (Keyamo 2023). These weighty allegations need to be managed convincingly in order not to slim the chances of Senator Ahmed Tinubu in the 2023 General Elections.

**Opportunity.** Senator Ahmed Tinubu has some glaring opportunities provided by some key opposition parties. For instance, the role of the famous G-5 Governors from PDP withdrawing their support for Atiku Abubakar is a major blow for PDP. These governors are Nyesom Wike of Rivers State, Seyi Makinde of Oyo State, Samuel Ortom of Benue State, Ifeanyi Ugwuanyi of Enugu State and Okezie Ikpeazu of Abia State. These governors continuous and collective protest would significantly slim the chances of PDP irrespective of who they would eventually support. Their stands are already an added advantage to Senator Ahmed Tinubu. Also, the Labour Party candidate Mr Peter Obi has also taken over the entire South East being his region of extraction and sadly abinitio was the strong catchment area of PDP. This is also an added advantage to the candidate of APC. The three major deciding states of Lagos, Kano and Rivers are 50 percent for Tinubu while Lagos is between 70% -80%. Rivers is likely going to be shared among PDP, LP and APC due to Governor Wike's posture with his party. It is also important to state that, most states Governors of northern extraction from both PDP and APC would prefer Senator Tinubu to win the coming election to enable them constitutionally and morally eligible to contest after Tinubu's tenure, than having Atiku. If this status quo remains into the election, the APC candidate would be the greatest beneficiary.

**Threat.** The major threat for Ahmed Bola Tinubu is the current score card of APC in the eyes of the electorate. Has the current APC government addressed the change mantra they promised Nigerians? What is the state of the social contract between the electorate and the current government? A lot of Nigerians are not happy with current state of the economy, security, education and general performance of the ruling party. Citizens are more impoverished, inflation has gone up, exchange rate has plummeted and students are more at home, skilled and unskilled labor are leaving the country for greener pastures. More worrisome and surprising is the continuous hike in prices of petroleum products and its unavailability.

The sudden and unfavorable manner of currency redesign and the way and manner the policy is being implemented few days to 2023 General Elections leaves much to be desired. (Keyamo 2023). These are critical issues that have grave consequences for APC and its presidential candidate going into the election. These developments compelled the APC flag bearer into raising an alarm over the lingering fuel scarcity and naira redesign but however pleaded for calm. The Naira redesigned is aimed at slimming Tinubu's chances in the February 25 Presidential Elections (El Rufai 2023). Tinubu's alarm and subsequent visit to Mr President in Daura Katsina State with other critical stakeholders led to the extension of

the deadline to 10 February. Tinubu however, seems to be aware of certain development which are detrimental to his aspirations and hence might be putting up some measures to mitigate it. This development however, has become blessing in disguise as a good number of Nigerian have come to the realization that the policy on naira redesigned and fuel scarcity are aimed at de marketing APC in the coming election. Hence, this has drawn more compassion to his quest for presidency and most likely would translate to more votes for Asiwaju on 25 February 2023.

**Mr. Rabiu Musa Kwankwasoof NNPP**

**Strength.** Rabiu Musa Kwankwaso was born in October 1956. Engr Rabiu Musa Kwankwaso is one of the most experience politicians in Nigeria with huge experience. His strength in the political landscape is highly impressive and cut across different strata. Some of the political offices he held includes member of House of Representative, Governor of Kano State, Minister of Defence and later Senator of the Federal Republic of Nigeria. Engr Kwankwaso huge followership is in the North, particularly in Kano State where he established and entrenched a political movement known as Kwankwasiya. The name of the movement was derived from his name Kwankwaso. Their major physical identity is the wearing of a red cap. The movement is more pronounced in northern Nigeria with the Headquarters in Kano and also his strong hold. The major goal of the movement is to ensure that all political positions in Nigeria are capture by the members of the movement and across the country. In addition to his huge political experience which stands him out above other candidates, he also has great strength in the area of infrastructural development during his second tenure as governor of Kano State. He built quality roads across the LGAs of Kano State, built schools, open up the town which includes the Kwankwasiya Estate. He also electrifies the streets of Kano at night using alternative means of power generation. He invested so much in education at all levels. He built two states universities namely University of Science and Technology in Wudil and the North West University Kano. He is the first Governor since 1999 to introduced free school feeding in Kano State. He encouraged the children of the poor to achieve quality education within and outside the country via scholarship. In the area of security, he made a statement, particularly in the days of terrorist's activities in Kano State. A case in point, during his second tenure in 2012, the Boko-Haram terrorists struck in Kano killing hundreds of people. The invasion of Boko-Haram lasted from 2012 – 2015 totally about 3 years before they were rooted out. This was achieved because of his personal commitment, the massive support he gave the security forces to do their work and his will power. Dr Musa Kwankwoso is also young, healthy and agile when compares with other frontline candidates. Engr Rabiu Musa is also very strong in the areas of courage, decisiveness, fearless, firm and fair. He ensures that whatever he set out to do is accomplished no matter what it takes. Engr Kwankwaso is the most educated of the frontline candidates with a PhD in Water Engineering from Sharda University India.

**Weakness.** In the area of weakness, the Engr Rabiu Musa major support is the northern part of the country and Kano in particular. The South-West and South-East are under the control of Senator Tinubu Ahmed and Peter obi respectively. He might encounter huge challenges in gathering votes from other geo-political zones. This is a concern for Engr Rabiu Kwankwaso in the forthcoming 2023 general Election. Also, another weakness of

the candidate is the age of the NNPP, the party is less than 2 years since its formation and the spread is limited to the northern part of country. Additionally, the NNPP candidate does not have elective representatives in any elective offices. Furthermore, the NNPP candidate does not have the financial muscle when compare to the APC and PDP candidates for the prosecution of his election project. These are weaknesses that need to be bridge by the NNPP candidate if he intends to win the 2023 Election. The NNPP vice presidential candidate is also not popular compare to other vice presidential candidates; hence it could affect his ability to deliver votes from his region.

**Opportunity.** The NNPP has window of opportunity to catch on in the build up to the coming 2023 election. The NNPP candidate could leverage on the large population of the Hausa and northern community across the 36 states and FCT to make an in road into the voting population of the southern region. Another likely opportunity that might swings the way of Engr Rabiw Kwankwaso is the ongoing litigation against APC and PDP candidates from different fronts. Should these candidates or any of them get disqualified, more votes could accrue to Engr Rabiw Kwankwaso. In political calculation, 24 hours is a long time, thus any window of opportunity through action or in action could change the dynamics of votes in favor of Engr Rabiw Musa depending on the circumstances.

**Threats.** Engr Rabiw Musa candidacy could be confronted with some significant threats. Firstly, the Atiku's candidacy and Kashim Shettima vice candidacy are threat to Engr Rabiw Kwankwaso presidential ambition because of the likely competing votes in the north. The votes in the north would be keenly contested for and would be shared among APC, NNPP and PDP. Also, the in fighting in the party that led to the defection of his strong allied Ibrahim Shekaru to PDP with most of his followers would have negative consequences on his chances.

### **Mr. Atiku Abubakar of the PDP**

**Strength.** Atiku Abubakar was born in Jada Adamawa State in November 1946. Atiku is the presidential candidate of PDP. He was a Custom officer before retiring into politics. Atiku is a veteran of the Nigerian politics and he has been in the presidential race before the return of democracy in 1999 when he indicated interest but later settled for the running mate to Gen Olusegun Obasanjo rtd with whom he later became his Vice President and ruled Nigeria from 1999 – 2007. Thereafter, Atiku contested for all elections till date. The highest and the only office he ever occupied was the Vice President of Federal Republic of Nigeria. He also had the best record of cross carpeting in Nigeria politics among other candidates. He has followership from the north but cannot ascertain if the followership would translate to vote on 25 February 2023. He is a successful business man; he established the popular American University Yola and a couple of businesses across the country.

**Weakness.** The PDP presidential candidate has some weaknesses that could affect his performance in the coming general election. The major weakness is the numerous corruption allegations against him though he has not been indicted by a court of competent jurisdiction. However, General Olusegun Obasanjo (rtd) in his book *My Watch* described him as his propensity to corruption, his tendency to disloyalty, his inability to say and stick to the truth all the time, a propensity for poor judgment, his belief and reliance on marabouts, his lack of transparency, his trust in money to buy his way out on all issues and his readiness to sacrifice morality, integrity, propriety truth and national interest for self



and selfish interest, (Obasanjo 31-32). He further alleged that the resources Atiku stole can feed over 300million Nigerians for 400 years. Atiku has not been able to substantiate his source of wealth convincingly as he claimed to have been in car business while serving as a custom officer which in itself violates the civil service rules.

Atiku Abubakar is an experience politician within the Nigeria political space. Despite his decades of exposure in the political arena, he has not been able to mentor and sustained credible individuals to elective or strategic appointments. Another major weakness for Atiku is the PDP disruption of the rotational presidency in the party constitution. It is a big setback for Atiku Abubakar aspiration as the southern part of the country could be hostile to Atiku Abubakar at the poll to express their anger over his emergence as PDP flag bearer as against a southern candidate. It is expected that after the 2 terms of APC northern candidate as president, PDP would have allowed a candidate from the southern extraction fly the party's flag in the 2023 Presidential Election. This would count against the party in the 25 February Election.

The 16 years of PDP from 1999-2015 was seen as a dismal performance, considering the resources at their disposal particularly from the oil windfalls. It was expected that resources from the oil boom would have been invested in critical infrastructure but were rather mismanaged. Atiku Abubakar within the same period as the head of the economic council supervised the fraudulent privatization of our critical national assets at a far below cost of those assets. Some of the assets sold include the ALSCON in Ikot Abasi, Akwa Ibom worth 3. 5B dollars but was sold for 130m dollars, DSC Delta State worth 1. 5b dollars, was sold for 30m dollars, NITEL, Nigerian Airways, Niger Dock and host of others were all sold at a very ridiculous rate inimical to our national development. According to Dr James Duru, the privatization exercise that was carried out from 1999, was a massive failure. (James 2011). This some economist asserted to be the foundation of Nigerian current economy woes. The weaknesses observed in respect of the candidate of Atiku Abubakar are overwhelming and could affect his chances negatively.

**Opportunity.** The incumbent government of APC at the centre performs below expectation and this could serve as an edge for the opposition parties in their campaign especially PDP. Also, the ongoing controversial naira redesign policy of CBN and the acute shortage of PMS in the country could be an advantage to Atiku aspirations.

**Threats.** There are 3 major threats to Atiku Abubakar's aspirations namely, the role of the G5 Governors led by Governor Nyesom Wike, the Peter Obi factor in the South East and the limited numbers of states governors. The role of G5 Governors of Rivers, Oyo, Benue, Enugu and Abia States should be of great concern to PDP presidential aspirant. The G5 Governors are aggrieved on so many issues particularly the choice of the party chairman Iyorchia Ayu from the north. The G5 they insists, that the party Chairman should come from south having lost the presidential slot to the north in line with the provisions of PDP constitution. Unfortunately, PDP refused to oblige the request of the G5 which is the only condition that would guarantee their support for the presidential candidate (Wike 2023). Again, the South East was the strong hold of the PDP but with the emergence of Peter Obi as LP flag bearer, the South East has completely transfers their support to LP. From the 14 PDP states, 10 states are not likely to support PDP presidential candidate in the 25 February Election. This would have a grave consequence on Atiku's aspiration. Already, PDP is disadvantage with only 14 Governors as against APC 21 Governors. Again, the accusation against Atiku Abubakar by a whistle blower his former aid called

Michael Achimugu, on the issue of Special Purpose Vehicle (SPV) company that was registered and used as conduit pipe for siphoning Nigerian money in collusion with the then President Obasanjo, could have a grave consequence on Atiku's political image and advantage to other major opposition parties (Keyamo 2023). He further claimed that these monies were used to build the Bell University and American University Yola respectively. This allegation was further echoed during a press conference by APC Media team led by Festus Keyamo. It was on the strength of this allegation that Keyamo approached the court of competent jurisdiction seeking for Atikus disqualification and subsequent prosecution. Considering the threats highlighted, it would be extremely difficult for Atiku to win the 2023 Presidential Election.

### **Mr. Peter Obi of Labour Party**

**Strength.** Peter Obi was born in Onitsha Anambra State in July 1961. Peter Obi political experience was the office of the Anambra State Governor under the platform of APGA. However, he defected to PDP sometimes in his political Journey and in the year 2022 defected to LP and emerged the presidential flag bearer. The party only gained momentum when Peter Obi defected from PDP. His support base is huge and majorly from the South East and other southern part of the country. He is competent and his major followership is from the south east. He is also a successful business man and prudent in spending. His only political experience was the office of the Anambra State Governor which he held from 2006 – 2014. Peter Obi's achievement as the Governor of Anambra state includes the first state in Nigeria to have a savings in Sub – Sovereign wealth Fund. He invested over 500 million dollars for the state at a time when most states were indebted and borrowing money while 156 dollars was invested in bonds in the education sector; he handed over missionary schools to their owners and continued to pay salaries and other support needed. The state performed creditably by emerging first in NECO and WAEC during his tenure. He also created an enabling environment for foreign investors while also establishing some industries such as the SAB miller, which is the second largest brewery in the world. He encouraged and supported local industries like the Innoson Motors among other achievement.

**Weakness.** Peter Obi major weaknesses include his refusal to criticize the activities of the IPOB and his promised to release Namdi Kanu if he wins the election. This translates to a tacit support for the IPOB; also, the lack of spread in followership across the country. His major support base is the South East though; he might make some inroads in some Christian dominated enclave and few PDP states outside the South East but would not be significant enough to give him victory. The Labour Party has no elective representatives particularly states governors that would mobilise resources for the party logistics requirement as election in Nigeria is capital intensive.

**Opportunity.** The incumbent government of APC has so far performed below expectation and this could serve as an edge for the opposition parties in their campaign including LP. Also, the ongoing controversial naira redesign policy of CBN and the acute shortage of PMS in the country could be an advantage to Obi's aspirations.

**Threats.** The major threat against Peter Obi's aspirations is the activities of the indigenous Peoples of Biafra (IPOB) in the South East. The IPOB have been terrorizing the entire south east. These includes the Monday sit at home, kidnapping, indiscriminate killings, particularly politicians and security operatives, burning of government facilities

particularly INEC offices and materials such as PVCs, BVAS among others. These unnecessary negative developments have already created fears in the mind of the electorates which coincidentally is the base of Peter Obi. Also, the threats from Mr Simon Ekpa an IPOB leader has directed a sit at home in all states in the South East and part of south south, could lead to low voters turnout and would have a devastating effect on the candidate of LP in the overall performance in the election.

### **General Deductions**

The four instruments of the SWOT ANALYSIS namely Strength, Weakness, Opportunity and Threats have been adequately examined for all the frontline candidates. All the candidates have their areas of strength and weakness. However, some of the candidates are better positioned than others as we shall analyzed in the succeeding paragraphs.

**Strength.** All the frontline candidates have their areas of strengths. Atiku Abubakr's strength is largely on his experience and popularity in the Nigerian political terrain. However, his popularity and experience has not been impactful, based on the facts that it has not translated to human capital development and structural growth in his home state of Adamawa and at the national level. His rating therefore is **below average** in strength. Engr Kwankwaso during his tenure as Governor of Kano State was able to develop the state in both human and physical development. He built 2 Universities, roads, bridges and also sponsored children of less privileged to universities within and outside Nigeria. More importantly, he established a formidable political movement in kano known as Kwankwasiya. He is rated **above average** in strength. Peter Obi's strength lies in his integrity and prudence. As the Governor of Anambra State, he ensured the judicious use of state resources by cutting down on most of the unnecessary expenses. He also saved a lot of money for his successor to enable him function properly. Obi is very popular in the South East, part of South South and among the youths that are active on social media and could get a block vote from the SE. He also addressed the issue of insecurity during his tenure among others. He is however rated **average** in terms of strength.

The Candidate of APC Bola Tinubu is very strong in terms of strength. He is very popular across the country and particularly in the SW. He is the most influential politician in Nigeria today considering the role he played in the emergence of President Muhammadu Buhari. He also mentors a lot of people who are occupying sensitive appointment at states and national levels among which is the sitting Vice Present of Nigeria Yemi Osinbajo among others. He transformed the future of Lagos with the 40 years master planned that is successively sustained by his successors. He transformed Lagos State economy to become one of the biggest economies in Africa. He did very well in security and the template is replicated among some states. His achievements are tangible and highly impactful. Senator Asiwaju's strength is rated **Excellent**.

**Weakness.** The frontline candidate suffers one form of weakness or the other. The APC Presidential candidate has been accused of nursing some health challenges, drugs deals and some corruption allegations. He has however not been indicted by any court of the land. His weakness status is rated **below average**. The LP Candidate Mr Peter Obi's major weakness is the despicable role of IPOB in the SE which he has refused to criticize and rather promised to release Nnamdi Kanu if he wins the election. This translates to a tacit

support for the IPOB and would constitute a drawback for him in the coming election. He is rated **average**. The PDP Candidate Atiku Abubakar weakness centres on his role in the privatization of Nigerian assets which was described as massive failure also constitute a setback. His propensity for corruption as captured by his former boss Olusegun Obasanjo speaks volume. Overall, his performance during his tenure as Vice President was abysmal and his inability to mentor any of his aids or loyalist also exposes his weakness as a leader. He is rated **average**. Engr Rabiun Musa Kwankwaso of the NNPP weakness include the infancy of his party ,lack of spread particularly in the south and inadequate resources to embark on Presidential elections in Nigeria. He is rated **average**.

**Opportunity.** All the opposition parties candidates of LP,PDP and NNPP would inadvertently leverage on the APC lead government under performance and this could serve as an edge for the opposition parties in their campaign. Also, the ongoing controversial naira redesign policy of CBN and the acute shortage of PMS in the country could be an advantage to all the opposition parties. The PDP,LP and NNPP could be rated **average**. However, a good number of Nigerians have come to realized that the naira redesigned and sudden fuel scarcities as the game plan of the cabal in collusion with PDP to de markets the APC presidential candidate (Keyamo 2023). The APC would also leverage on the G5 protest within the PDP to garner votes. Also the role of Peter Obi would affect the PDP performance in the SE which is an added advantage to the APC. This instrument rates the APC **above average**.

**Threats.** All the frontline candidates are contending with one form of threats or the other. The labor Party candidate threats include the appalling activities of IPOB and the lack of spread, the role of G-5 and lack of support base of LP across the country particularly in the north. Also the lack of elective representatives particularly governors constitute a threat. He is rated **average**. The NNPP candidate's threats include the Atiku's candidacy and Kashim Shettima vice president candidacy which would have negative effect on Engr Rabiun Kwankwaso presidential ambition because of the competing votes in the north. Also, the in fighting in NNPP which led to the defection of his strong allied Ibrahim Shekaru to PDP with most of his followers would also have negative consequences on his chances. He is rated **average**. The candidate of PDP has 3 major threats standing against his aspirations namely, the role of the G5 Governors, led by Governor Nyesom Wike, the Peter Obi factor in the South East and the limited numbers of states governors in PDP. The role of G5 Governors of Rivers, Oyo, Benue, Enugu and Abia States should be of great concern to PDP presidential aspirant and would certainly affect his performance in the general election. His threat is rated **above average**. The threats for Ahmed Bola Tinubu of APC are the current score card of APC in the eyes of the electorate. A lot of Nigerians are not happy with current state of the economy, security, education and general performance of the ruling party. More worrisome and surprising is the continuous hike in prices of petroleum products and its unavailability also the naira redesign policy of the ruling APC. These could affect the performance of the party in the coming election. Ahmed Tinubu is rated **average** in threats.

On the whole and barring unforeseen considerations, Bola Ahmed Tinubu stands out among other contestant in view of his overwhelming strength, and opportunities. The weakness and threats observed might not really affect his aspirations in the 25 February 2023 Elections. However, the presidential election might not be won in the first ballot and thus could proceed to a rerun given the competitiveness of the contest. Consequently, the

likely winner of the election could be Senator Ahmed Tinubu, Atiku Abubakar, Peter Obi and Engr Rabiw Kwankaso in that order. Table 1 below is a SWOT Analysis Performance Table for 2023 Presidential Candidates. However, considering the importance of good governance to developing countries like Nigeria and its effects on electorates, politicians must make deliberate efforts to deliver true dividends of democracy. Also, the role of mentorship cannot be over emphasized. It is imperative for Nigerian politicians to always ensure that at any given opportunity to serve the people, good governance and quality mentorship should be their preoccupation.

**SWOT ANALYSIS PERFORMANCE TABLE FOR 2023 PRESIDENTIAL CANDIDATES**

Ser No	Tool	Performance Rate					Rmks
(a)	(b)	(c)					(d)
		Weak (20%)	Below Average (40%)	Average (60%)	Above Average (80%)	Excellent (100%)	
<b>All Progressives Congress (APC)</b>							
<b>Bola Ahmed Tinubu</b>							
1.	Strength			---		---	
2.	Weakness			---			
3.	Opportunity				---		
4.	Threats			---			
<b>Labour Party (LP)</b>							
<b>Mr Peter Obi</b>							
1.	Strength			---			
2.	Weakness			---			
3.	Opportunity			---		---	
4.	Threats				---		
<b>New Nigeria Peoples Party (NNPP)</b>							
<b>Mr Rabiw Musa Kwankaso</b>							
1.	Strength			---	---		
2.	Weakness			---			
3.	Opportunity			---			
4.	Threats			---			
<b>Peoples Democratic Party (PDP)</b>							
<b>Alhaji Atiku Abubakar</b>							
1.	Strength		---				
2.	Weakness			---			
3.	Opportunity			---			
4.	Threats				---		

Source: Table prepared by authors

### Concluding remarks

The SWOT analysis is a strategy employ to identify the competence or otherwise of candidates and institutions. The SWOT analysis of the four frontline candidates for the forthcoming General Elections was based on their strength, weaknesses, opportunity and threats. Bola Tinubu stand out among the candidates based on his overwhelming credentials. His strength is quite impressive particularly as the governor of Lagos state and

his ability to mentor most of his former aides. These are people who currently occupy important offices across the country and they include the current Vice President Yemi Osibanjo, Raji Fashola, Ambode, Rauf Aregbesola and the current Governor of Lagos State, Sanwo-Olu among others. His weaknesses and threat could be overcome if well managed or better still; the effects could be reduced to the barest minimum. If the status quo in the opposition party PDP, particularly the protest of the G-5 Governors remains, it could be to his advantage.

The prerequisites for attracting electorates' votes are numerous. However, some key factors stand out and these include the importance of good governance to developing countries like Nigeria and its effects on electorates. Also, the importance of mentorship cannot be over emphasized. It is imperative for Nigerian politicians to always ensure that at any given opportunity to serve the people, good governance and mentorship should be their preoccupation.

The other major flag bearer in the 2023 Presidential race namely Mr Peter Obi of LP, Atiku Abubakar of PDP and Engr Musa Rabiun Kwankwaso of NNPP are all formidable forces and their individual and collective capacities would make the 2023 General Elections a historical event.

The recommends the need for political office holders to provide good governance that would enable the citizens the ultimate benefits of the divided of democracy; such that can make life worth living. The era of expecting the electorates to vote based on such sentiments as religion and tribe are fast getting over and replaced with performance while in office.

Events leading to the 2023 General Elections have shown the importance of mentorship while public in office. This provides an army of loyal and reliable mentees who would be ever ready to defend the ideals of their mentor any time anywhere.

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## **MEDIA, DEMOCRACY, MILITARY AND NATIONAL SECURITY IN NIGERIA**

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**Abstract:** *This study discussed Nigerian military, national security and the role of the mass media in democracy. The media are critical stakeholders in the Nigerian project. During colonial rule, the press led the fight for Nigeria independence. During military rule, the media led the fight to return the country to democracy. The study explained that the press has been the foremost instrument of fighting for equity, justice, unity and the development of Nigeria. Journalists should be empowered to tell the powerful stories that will aid our overall collective development; keep our leaders and institutions accountable; foster peace and unity; as well as inspire a sense of patriotic duty amongst the citizenry. To strengthen the media, which is the Fourth Estate of The Realm in democracy is a task that must be done. The mass media in Nigeria should be used to enhance and sustain the security of the nation. This means that mass media should never be used as divisive instrument among the people of Nigeria but rather should be used for the promotion and consolidation of national unity and integration. It is also recommended that security operatives should work with media practitioners as watchdogs of the society.*

**Keywords:** *Media, Military, National Security, Communication, Nigeria, Press*

### **Introduction**

The essential cornerstone of human life is provided by communication, which is the art, science, and technical means of exchanging and sending information, thoughts, ideas and attitudes from one person to another. A large group of people that live in close proximity to one another and share a common geographic area are referred to as society. This group is often subject to the same political authority and prevailing cultural standards. Society might be a form of communication whereby experiences are exchanged, described, changed and kept. According to Wilbur Schramm (1954) cited in Olayiwola (2013), communication often takes place in a specific area. It indicates a connection between relationships as well as between people. The internet is what holds society as a whole together. Since the beginning of time, people have understood how important communication is. Without it, citizens cannot participate in organised group processes that assist coordinate their actions in society and eventually lead to interdependence of lives. Communication is fundamental to all or any human processes. The essential foundation of any social, economic or political system is communication, which is defined as the exchange of ideas, information, and knowledge and, consequently, the transmission of meaning. Numerous studies contend that human society cannot function without communication since it is so vital to human interaction. Marx, Tonnies, Simmel, Mannheim, Tarde, and Le Bon, among other European scholars in the Sociology of Data and Mass Society (n.d. cited in Olayiwola, 2013), claimed that society cannot exist without



communication and that communication cannot exist without society. Citizenship, associations, organizations, societies and ultimately the nation-state are all based on and held together by the communications, perceptions, choices and expectations that people have for one another; by transactions; and by the willingness to validate a significant portion of the expectations by appropriate reciprocal behaviours. Any complete analysis of political organizations or social systems must at the very least take the role of communication into consideration because it is communication, or the capacity to transmit messages and respond to them, that gives organizations their identity. A group can think, determine, and act as a unit when they can communicate.

According to Daramola (2011), the simple fact that citizens sleep in groups is the foundation for the concept of society, and it is from this place that social relationships and interaction develop. Men interact constantly, respond to one another, and develop their behaviour in light of a continuous cycle of action and reaction. It is debatably correct that men live together and share similar perspectives, values, beliefs, and customs.

Therefore, a social relationship exists when individuals or groups have expectations about one another's behaviour that cause them to act in a certain way. Because of this approach, society is characterized as the "network of social relationships (Daramola, 2011).

## **Research Methods**

Answers to inquiries concerning experience, meaning, and perspective are typically provided using qualitative approaches from the perspective of the participant. Usually, it is impossible to count or measure these facts. In-depth interviews are used to understand a condition, experience or event from a personal perspective. Small-group discussions are used to investigate beliefs, attitudes, and concepts of normative behaviour. Semi-structured interviews are used to seek opinions on a focused topic or, with key informants, for background information or an institutional perspective (Hammarberg, Kirkman and de Lacey, 2016).

The study used a qualitative research approach. A small number of observations or the study of singular events is typically the subjects of qualitative research methods, which place a greater emphasis on interpretation and comprehension. In doing so, the qualitative research approach aims to focus more on ideas, concepts and models. Additionally, we can gather knowledge, gain understanding of a problem's approach or solution, and discover how to launch a new program or plan. The primary research sources from earlier studies that were pertinent to the investigation were used in this study's literature evaluation.

Literature review is a systematic approach of previous studies related to a research question, either in wide or narrow scope (Bearfield & Eller, 2008). There were some previous researches and studies about NPM and digital government that can be used to help answer the questions in this research. Also, this research used secondary data.

## **Literature Review**

In today's world, individuals rely heavily on the media to inform them about current events. Additionally, they serve as forums for interpersonal communication within a culture. These are the channels used to simultaneously disseminate data to a sizable, diverse, anonymous and dispersed audience. They essentially consist of billboards, posters, radio, television,

newspapers, magazines and books (print media) (outdoor media). In every civilisation, these media serve as the primary means of communication (Nwabueze & Ebeze, 2013). The media is one reliable approach to stay current with our times. No known society has been able to function without communication, suggesting that it may be a crucial aspect of our life. It is the exchanging of meanings between individuals, nations, societies and cultures through the interchange of concepts, opinions, knowledge and experiences. The press is frequently referred to as the Fourth Estate in liberal ideology, making it the society's watchdog. This refers to the media's role as an organ of information gathering and dissemination, educational advancement, surveillance, social enlightenment, and mobilization (Tobechukwu, 2007).

A copyright law to protect writers and publishers, a basic statute intended to protect the common decency and morality against infraction by the system, and another basic statute to protect the state against treasonable and seditious utterances and writings are just a few examples of the basic statutory controls that will apply to almost any mass media system. In the majority of countries, this is a common practice. Due to factors or circumstances unique to the State or Government in question, the media in every nation is submissive to the political establishment. Therefore, a significant portion of public policy issues involving the media in many nations stem from either attempts to strike a balance between freedom and responsibility in media production or from rights conflicts where the government may be persuaded to assert its own superior right by restricting the rights of other social institutions in a particular nation (Gambo, 2008). The issues with press freedom and responsibility are a difficulty for the mass media in Nigeria, as they are in many other developing nations. Media professionals emphasize the right to dissent while downplaying their responsibility to support the precarious process of nation building. As a result, state restrictions or regulations which may result from a variety of reasons are the cause of the press's labours. They will be related to fear, politics, or the safety of the country. But regardless of where they came from, they are inescapably linked to the physical structure and consequently the political organization of the State. The press may be a social institution, and depending on the political, economic, and social structure of the society, it will have a different purpose and personality (Gambo, 2008).

### **Media and National Security**

Although the idea of national security is all-encompassing and permeates every aspect of a country's life, it appears that it has only been applied to ideas related to military might and territorial defence. Communication is crucial to each nation's security since it is the foundation of the human spirit. National security encompasses a variety of factors, including social, physical, economic, technological and social characteristics inside a country that assure the protection of its population; all of these factors perform best in a setting where there is strategic communication. Communication and national security are related, and because they are both symbolic, national security issues also affect communication (Dairo, 2017). The phrase "national security" has long been used to refer to extremely high levels of military security. This meaning has become more and more debatable, questioned, and contentious. National security is a problem that affects more than just the Army, Navy, and Air Force. It is necessary to take into consideration the country's entire capacity for war, as well as our mining, industries, workforce, research,

and all other activities that enter the regular civilian life (Ajao, 2015). Robert McNamara in his book *The Essence of Security* (1968 cited in Ajao, 2015) asserted that security equates to advancement in a culture that is modernizing. Even if it will, security is not a military unit. Although it will, security is not a military activity. Without development there is frequently no security because security equals development.

Every concern about national security has a purpose, and certain protests and mass strikes let the administration know how desperate and distressed the people are. In a similar line, Boko Haram's terrorist acts, kidnappings, and other criminal activities express underlying issues including political agendas, unemployment, and fear among the victims.

All of this is frequently interpreted on social media and highlighted in various ways by the press. There are not many studies that explore the relationship between national security and communication because so many focus on armament and territorial dominance as peace and defence measures, despite the consequences these aspects have for national discourse and national survival.

Each nation faces a threat to its security from all forms of communication that take place within its social institutions, such as the family, the church, the schools, and the media. Conflict between religious groups can lead to violence that spreads throughout a rural area and even outside its borders. Nigeria has recently experienced recession, which has affected its image in local and international reporting as well as social media postings and memes. National security challenges within a country also affect the national discourse within the country. It is crucial to understand that national security and communication are components of the national ecology that can either be detrimental or useful when employed in unification (Dairo, 2017).

Human communication is fueled by environmental problems. The current hot topics in the media and consequently, the interpersonal relationships inside a country at a given time can be influenced by national security. The Nigerian economy entered a recession in 2016, which resulted in currency devaluation, high rates of inflation, low oil prices globally, and high exchange rates within the country. The type of information being represented in the local and international media may be significantly influenced by national security. Even issues with national security outside of a country can affect knowledge within that country; terrorist attacks on other countries affect how they interact with immigrants and tourists; suddenly, security measures are increased, border interactions are more formal and professional, and even the relationship between tourists and locals is guided. Conflicts between ethnic groups and religions and kidnapping are two examples of situations that have an impact on how people interact with one another both inside and outside of a country. Security in educational institutions has grown crucial due to the frequent kidnapping of children in schools, like as the 2014 abduction of nearly 200 female students from a faculty in Chibok. This has also had an impact on the country's tourism potential because kidnapping is a concern that discourages international visitors from going and mingling with people directly for fear of disclosing personal information and leading to abduction (Dairo, 2017).

In terms of security and national cohesiveness, the media is crucial. Apart from the laws and military force frequently used by the government to address national security, communication is also crucial since information can be a tool that will be used to safeguard the state, accomplish security, or undermine it. The media serves as a liaison between a country's government and its citizens. As a result, the media transmits and interprets a

country's policy. It is not surprising that press freedom is stressed in democracies in order to protect the independence of the media. As stated in Section 22 of the amended 1999 constitution of the Federal Republic of Nigeria, the media is entrusted with the facility of monitoring governance and upholding fundamental objectives of state policy. During a democratic setting, public support is vital within the formulation and implementation of national policies. As a watchdog, the media plays a crucial role in investigating, alerting and reporting individuals, activities and practices which will endanger the security of the state (Dairo, 2017).

Without a secure environment, there can be neither sustainable, poverty reducing economic and social development nor political development. As a result, the press need to reveal all the aspects of security mentioned in their reportage. In the same vein, Olayiwola (2013) states that there are other key issues relating to sound security coverage that the media need to be aware of. They include the following:

- a) Security as a public good;
- b) Comprehensive approach to security sector transformation;
- c) Coherent external interventions;
- d) Commitment of national leadership to a reform process;
- e) Local ownership and capacity;
- f) Confidence building measures; and
- g) Importance of a long-term perspective, to mention just a few.

Olayiwola (2013) states that security sector and security community are also to be reported. The totality of the actors that affect the security of the state and its population constitutes the “security community”.

Nigeria's national security entails the defence of its resources, borders, sovereignty, and legitimate institutions. To ensure the nation's just and equitable living circumstances is the goal of national security (Ali, 2013). Chief Olusegun Obasanjo, a former president of Nigeria, stated in March 2001 that the concept of national security shall be the aggregation of the security interests of the individuals, communities, ethnic groups, political entities, and institutions which inhabit the territory of our great country, Nigeria. He made this statement in recognition of the need for closer co-operation and collaboration among the various security agencies and all other components that make up the Nigerian society. The President went on to list the main goals of national security, which included strengthening the Federal Republic of Nigeria, advancing its interests and goals, containing instability, controlling crime, doing away with corruption, fostering real development progress and growth, and enhancing the welfare and wellbeing of every citizen (Wali, 2003, cited in Ali, 2013).

The type and tone of information supplied to the electorate is greatly influenced by journalists. The journalists act as gatekeepers, shaping public perception of current political events and personalities through their reporting and analysis. Indeed, they direct public knowledge of political issues as well as the national political agenda. The importance of the mass media in achieving societal goals—whether they pertain to social, health, infrastructure, political, educational, or security development—has been emphasized. The mass media are among the most significant institutions for socialization and are actually the main sector of the cultural economy that is in charge of disseminating ideas in Nigerian society Pate (2011 cited in Nwabueze and Ebeze, 2013).

Foreign media also plays a role in the national security of a nation, what is emphasised and highlighted can influence the perception of the country as a safe and peaceful nation or otherwise. The only way such reports can be countered is if national policies are continuously geared towards portraying the nation in a good light and rather than focusing on all its negatives, local media gives balanced reporting on both good and bad news (Dairo, 2017). Other institutions of socialisation such as the church, family, educational institutions and political establishments basically play reinforcement roles to the mass media by performing their separate functions in the society. This shows that the mass media impact on the society and determine dominant perceptions, values and attitude.

The surveillance and correlation functions of the media are at the core of mobilisation against acts of insecurity. The surveillance role says the media provide information to the society which is used in opinion moulding and attitude adoption. The correlation role says the media relate news and various happenings in the society to the individuals' life and environment. This is done through interpretation and explanation of the implications of happenings on the life and environment of the masses, including implications of acts that breed insecurity on the society. It is expected that through effective information, the society would gradually turn against such acts.

## **Democracy**

For greater part of the twentieth century, media in Nigeria was involved in promoting political awareness, encouraging civic engagement, sensitising citizens to national issues, and shaping public opinions on a variety of political issues. The meaning of the word democracy is best captured in the thoughts of Idowu (2008 cited in Odeyemi, 2010) thus: In the world of today, democracy has become a popular concept in every contemporary discourse. It is now a word that resonates in people's minds and springs from their lips as they struggle for freedom and for a better way of life. In its Greek understanding, the term democracy originally referred to the right of the citizens of the Greek City states to participate directly in the act of governance. The word 'democracy' is known to have been coined from two Greek words: demos (the people) and kratos (rule) which simply mean people's rule. It is an institution of governance which envisages a popular government as practiced in ancient Greece.

However, the circumstances in a modern State make direct participation of all the people in the government of the state impossible, the concept of democracy still put emphasis on the rule of the people, in that sovereign power is exercised by the people but now indirectly through a system of representation. The people choose their representatives who then govern on their behalf. In a democracy, power resides in the people and belongs to the people. In a democracy, the people own the government, but government does not own the people.

Diamond (2008 cited in Odeyemi, 2010) offered a similar meaning to the concept of democracy, 'at a minimum, democracy is a system of government in which all (or virtually all) adult citizens can choose their leaders and replace their leaders in regular, free, fair, and competitive (multiparty) elections.' Of the different arms that make up any modern day society, one organ whose importance can never be over emphasized is the mass media. The Mass media have been described as the fourth estate of the realm, that is, after the executive, legislative and judiciary arms of government in any democratic society. The

mass media are very important in nation building. Governments can hardly survive without effective use of the mass media. This is apparently why the third President of the United States of America, Thomas Jefferson, while underscoring the importance of the press in the society in one of his speeches stated: "... were it left for me to choose whether we should have a government without newspapers or newspapers without government, I shall not hesitate a moment to choose the latter" (Nwabueze & Ebeze, 2013). Similarly, President De-Gaulle of France once asked President John F. Kennedy of United States of America, "How can you control your country if you do not control television?" These assertions further underscore the pertinence of the mass media in any society. Governance in itself is communication based. The mass media facilitate the two-way communication process essential in bridging the gap between government and the governed, including the very essential role of ensuring that the basic values and tenets that keep a society together are promoted among the populace (Nwabueze & Ebeze, 2013).

In the world today, a form of government that continues to enjoy wide spread support and acceptance is democratic system of government. The Nigerian mass media appeared to have found renewed keenness because of its newly found experience of democracy in 1999 (Owen-Ibie, 1999 cited in Olaiya, Apeloko, & Ayeni, 2013). There is information explosion which leads to increase in the value of the mass media of communication around the world.

Over the past decades, the relationship between the media and governments in Nigeria has been a highly controversial, drawing attention from a wide range of communication scholars, social scientists, and independent research institutions. While perspectives and findings differ on the role of the press in the country as well as its relationship with governments, there is a consensus that the concept of governance will not be complete without effective and uncontrolled participation of news sources in disseminating national and political issues. Likewise, democratisation in contemporary Nigeria appears unattainable if Nigeria's stakeholders in urban and rural communities are not fully and actively engaged in the act of governing. The citizens of Nigeria, in particular, must be made to appreciate the importance of participating in the control political coverage, the independence of news sources, national security, the political process and challenging unpopular government decisions and actions. The press should play the crucial function of advocating for citizens' understanding of government activities, public policies, and national security.

The media all over the globe is regarded as a political instrument and in advanced societies, the mass media are actually an integral part of political life, serving for most people as their major and only link with the government and providing for them the information which they require to make political judgment on the basis of their political attitudes. In every society, the mass media plays important roles in the society or social system. That is why no government can do without the mass media. In addition to providing information about the political process, the mass media can confer status and legitimacy on political leaders and issues. This is known as status conferral function of the mass media. The mass media can also set the political agenda for the society by deciding what political topics the people should talk about. The agenda setting function of the mass media is an important aspect of the institutional linkage between the mass media and politics (Umechukwu, 2001 cited in Tobechukwu, 2007).

It is obvious from the stated argument that the mass media have a lot of influence on politics through the presentation of politically crucial information to vast heterogeneous, transitory and anonymous audiences. Decisions made by media professionals determine what information becomes available to the media audiences and what remains available. By putting stories into perspective and interpreting them, media personnel assign meaning to information and indicate the values by which it ought to be judged. The media also have the power to control much of the raw material needed by political elites and the general public by thinking about the political horizon and planning political action. At times, media professionals can generate political action directly through their own investigations or indirectly through their capacity to stimulate pseudo-events. By creating and sustaining political values, the press are also important tools for maintenance of political stability and social equilibrium.

Nigerians have for long aspired for democracy and they have been repeatedly frustrated. For nearly 30 years out of Nigeria's 61 years of independence from colonial rule, the frustration of Nigerians with shattered democratic aspirations were caused by authoritarian military regimes, which engineered transition to civil rule programmes to gain legitimacy but then systematically subverted this to continue to hold on to power by military fiat (Jega, 2011). The morning of Saturday May 29, 1999 saw Nigeria return to another experiment at democratic norms and institutions with Chief Olusegun Obasanjo sworn in as President and Commander-in-Chief of the nation's armed forces. Ever since, the polity has been filled with different policies, strategies and programmes aimed at consolidating the process and the values of democracy into the system and laying a solid foundation for its sustainability.

In modern day government especially in democratic polity of Nigeria there exist three arms of government namely the executive, the judiciary and the legislature with the media being the fourth estate of the realm. Media as an institution checkmates the excesses of the other three arms. The press remains the fourth estate of the watchdog and the conscience of the nation. It is the organ that informs the public about the activities of the executive, the legislature and the judiciary. The media also monitor, report the activities of the people and championing the cause of the people.

### **Military in Democracy**

Political intimidation is a weapon of warfare deployed by the military to psyche the enemy. It is a psychological approach to warfare. This has been extrapolated into the democratic milieu since 1999. The Economic and Financial Crime Commission (EFCC) has been used as a mechanism to intimidate political opponents to toe the same part with the executive. Impeachment had been used as an instrument of intimidation. This had been successfully employed in the impeachments in Oyo, Plateau and Anambra States respectively (Frank & Ukpere, 2012). Journalists suffered arbitrary arrest and detention in the hand of the military during military rule and the trend continues since the return of democratic dispensation in 1999. The military as an institution is not disposed to another centre of order or dissention. It has no pedigree to tolerate 'opposition' or dissention of view on its directives. This has been imprinted in the psyche of Nigerians and practiced in the democratic arena. This was manifested during the infamous moves towards the third-term of governance. Any person perceived as tumbling block was intimidated with the Economic and Financial Crime

Commission (EFCC), administrative panel report and gazette and the declaration of the office of the vice President vacant, which processes were all declared as constituting 'functus officio' (procedural irregularity) by the courts. The conduct of democratic elections in Nigeria bore a mark of warfare and events in a garrison state. During elections military men and policemen are made battle ready. They are seen everywhere, their sights engendered fear in the civil populace. International borders are always subjected to unnecessary closure. Considerable contradictions marked the preparation and execution of the elections as some candidates' names were not included in the ballot papers. This was a further attempt to stifle democracy. It matters little whether an ex-military officer is the President or not. The values were learned by all from the military and may continue to be replicated in the democratic arena (Frank & Ukpere, 2012).

The military governance is a one party phenomenon where dissent is an anathema. A dissenter is promptly detained. 'Miniere Amakiri' a chief correspondent of a Nigerian Newspaper (Nigerian Observer) had his head shaved just because he wrote a piece that was unpleasant to the former Governor of Rivers State 'Alfred Di-ete Spiff', in Port Harcourt. In 1978, the military proscribed the Newbreed Magazine and many journalists suffered humiliation. This dialectics were replicated in 2007 in a democracy thus; in May 14, 2006 during the debate for the tenure elongation (Obasanjo wanted the parliament to approve a 3rd term for him). African Independent Television (AIT) aired the debate live, thereby scaring away those who would have debated in favour of the elongation. The State Security Service (SSS) assaulted AIT reporters and stopped and destroyed the master tape of a documentary entitled 'a tenure elongation'. In April 2007 during the election acclaimed to have been widely flawed, the State Security Service (SSS—the Secret Police) again invaded the studio of the station during the airing of 'a documentary on Nigerian political development'. In post-Obasanjo era, Yar'Adua had re-enacted same with Channels Television and ThisDay Newspaper' respectively even with the claim of due process and the Rule of Law' as the mantra of his regime. This was an indication that beyond 2007, the military values pervaded the polity. The dialectics of the garrison state in a democratic setting is explicable (Frank & Ukpere, 2012).

### **Establishment of Press**

Section 39 (1) and (2) of the Constitution of Nigeria 1999 dwells on the right to freedom of expression and of the press. Section 1 states Inter-alia: "Every person shall be entitled to freedom of expression, including freedom to hold opinions and to receive and impart ideas and information without interference". Section (2) states without prejudice to the generality of subsection (1) of this section, every person shall be entitled to own, establish and operate any medium of dissemination of ideas, information and opinions.

However, Section 45 deals with restriction on the derogation from fundamental rights. Sub-section 1 of section 45 highlights therefore among others that nothing in Section 39 (Right to freedom of expression and of the Press) of the Constitution shall invalidate any law that is reasonably justifiable in a democratic society:

- a) In the interest of decency, public safety, public order, public morality or public health;
- b) For the purpose of protecting their rights and freedom of other persons.

Since the major duties of the Press, therefore are to inform, educate, and to entertain, it is suggestive that the torts of slander and libel limit the Press while journalists are expected



to perform their duties within the ambit of constitutional provisions and laid down rules and regulations.

### **Roles of Mass Media**

It should be mentioned that the most essential component of democratic practice is conveying ideas in order to win the support of the people in order to fully understand the relationship between the mass media and democracy. Due to the nature of democracy, journalists have faced significant difficulties. Politicians must compete in order to control the public opinion market in a democracy. The requirement to be fair and impartial in the editorial management of news from different organizations as well as the space provided for such news materials present problems to the fourth estate of the realm. This is even more during election when candidates of different political parties canvas for peoples votes. Leman (2015) argues that a major feature of any democracy is the electoral process/elections. It is the period in which the voters exercise their sovereignty through the power to vote. Election is therefore a tool for regeneration, rejuvenation and reinvigoration of the entire democratic system. It is thus important for the dynamic interaction within the political system. The role of the journalist within the system, especially against the background of his professional responsibility, cannot be overemphasised. Apart from mediating between the contestants to political offices through fair reporting and space allocation, the journalist also influences the available choices of candidates to the voters. In essence, the journalist is highly influential in the process of the people deciding on whom to vote for in the election.

It is in appreciation of the foregoing that there has been a universal agreement that the journalist must be properly guided especially in the reportage of elections. Elections, it should be noted, are not ordinary events. Elections are normally conducted within the framework of an Electoral Law. The election law provides the foundation for other activities, including news reports, involving the electoral process. Several regulatory and professional bodies, taking a cue from the Electoral law, always introduce guidelines to guide many activities including media reportage of the election and the electoral process (Leman, 2015). Leman stated that the Nigeria Union of Journalists and other organisations such as the Nigerian Press Organization, the National Broadcasting Commission, and the Guild of Editors have always agreed on strict guidelines for journalists covering the election. This is not peculiar to Nigeria. Indeed, it is a universal practice in all democratic countries.

Guidelines on election for the mass media underscore the universal appreciation of the important role of the journalist as news managers through whose eyes the average reader or listener sees events. The point of departure of most election guidelines is the acknowledgement of the professional skill and competence of the journalist. The Guides, however, specify the legal framework under which the reportage of election news will take place. In addition, given the highly sensitive nature of elections and its importance especially in a multi-party democracy and multi-ethnic polity such as Nigeria, the election Guide seeks to provide very detailed and specific direction to journalists and media practitioners who have a responsibility to report on the election. Press coverage and reportage of security sector transformation must be set within this broader international picture. Since conflict and insecurity themselves have been regionalized and globalised,

regional and global collective security mechanisms being strengthened to counteract them should be covered and reported as well. The Nigeria press rightly turned attention to the education of the citizenry as well as informing them about the government activities immediately after independence. The misdeed, excesses and inadequacies of the Nigerian political elites were adequately x-rayed with the result that Nigerians witnessed true democracy. Unfortunately, this patriotic posture of the media was misinterpreted as rabid opposition by the Nigerian political elites. The Nigeria Press operates within the prevailing Nigerian society which is largely illiterate and gullible. So each time Nigerian political elite runs foul of normal norms, good behaviour, good reputation and character, and if the Nigerian press scoop on same, s/he plays the ethnic card. Hence such phrases like Lagos/Ibadan axis press; Lagos Press, Ngbati Press and South West press crept into the political elite's consciousness. Never has it been in the character of Nigerian political elites to take criticism in good faith (Olayiwola, 2013).

Nigeria is an environment where journalists work without secure tenure of office, adequate remuneration and conducive atmosphere dominated by half baked democrats among others; and where media practitioners are kidnapped, assaulted, insulted and/or even killed. The political division in its greed has used the mass media as tool for egotistic and sectional loyalties. As a result, media reports have significantly heightened anxiety and created suspicion among the citizens. There are also, issues of ownership and control of the mass media, "he who pays the piper, dictates the tune", freedom of the press or lack of it, ethnicity, religion, economic factors, the political system, social factors, infrastructures, transportation, circulation, accommodation, medication, remuneration, working tools, security and among others. Between 1985 and 1999, the Nigerian press more than any other institutions in Nigeria put everything they had on the line for the survival of this country and enthronement of democracy. But for the Nigerian Press, Babangida would not have stepped aside in 1993 as the politicians including those in the winning party compromised their victory and reputation for ministerial appointments and other perquisites/ pecks of offices. The Nigerian media sustained June 12, 1993 election issue, when Chief Olawale Abiola won the Presidential Elections, but the military dictator, Ibrahim Babangida annulled the election. The media did this more than any other body or organisation.

The history of the Nigerian press is one of active involvement in the political process. During the colonial period, the press served as a medium of sustained public debate and political protest, an uncompromising advocate of administrative and political reforms, and a seething critic of the excesses of the colonial order. By its political activities, the press not only stimulated the emergence of nationalist movements but also played a prominent role in the constitutional development of modern Nigeria. In fact, the press was among the major weapons used by the nationalist leadership to gain and consolidate political power and governmental control Bamiduro (1985 cited in Olayiwola, 2013). Olayiwola (2013) states that the press served, throughout the life-span of the First Republic, as an important and indispensable medium of political communication between and among the various political parties and governments. In this respect, the press reflected the diversity of thoughts and feelings as well as created and mirrored public opinion on many fundamental political issues of the time. Olayiwola (2013) added that:

Nigeria's vibrant media played an influential role in the struggles over democratization and a reformed polity in these years. Defying censorship laws, closure of media houses, detention and abduction of journalists and the mysterious disappearance of key opposition

figures, a section of the media, drawing on a protest motif dating back to the colonial days, carries the struggle against the monumentally corrupt military class to a new pitch.

## **Theoretical Review**

### *Social Responsibility of the Press*

1. One aspect of the media's social responsibility is to protect individual rights by acting as a watchdog against the government.
2. Retaining its independence from outside pressure by remaining self-sufficient.
3. Assisting the political system with information, dialogue, and debate on current events.
4. Educating the populace to empower it with the capacity for self-government.
5. The economic system is primarily served by advertising, which connects buyers and sellers of goods and services.
6. Providing entertainment.

These components show an expansion of Harold Lasswell's functional model from 1948. According to Lasswell, the press's roles in any society or nation include environmental monitoring, societal response to the environment analysis, and the dissemination of cultural legacy. One of the media's societal obligations is to adhere to the impartiality guideline and use some maturity when reporting the news. Let the media's priorities correspond to the realities of the society it covers. This leads to the media professionals' on going complaints about the military's failure to provide information to the press. This is a result of people not knowing how the military interacts with society. The limitations of the military as an institution must be openly acknowledged by the media in order to obtain the full picture of media-military relations. No military can address all the flaws in society. Due to the nature of their work, the military is unable to provide the media with information based on rumours. Additionally, until the proper conclusion of the investigative procedures, the security services are not in a position to provide specific information once an offense has been committed and recognized. The military cannot unilaterally notify the media until all the complexities of the case are resolved in the interest of justice and fairness, which may in some situations, involve the judiciary, prisons, or other government authorities. Therefore, news reporting requires our mass media workers to practice patience as well as caution. They should discuss, and write maturely in order to avoid damaging the image of the Police which by its nature represents both the government and the country in the public eyes. The media must develop new attitudes towards objectivity and by so doing they will be assisting in the effort of the national development as well as orderly social change, to do this requires editorial restraint and subject balance. The history of the relationship between the media and the governments is one of sporadic anomalies, and the growing tendency for governments to take crucial decisions which underpin the structure of information industries stem from these anomalies. As Napoleon cited in Gambo (2008) said that "three hostile newspapers are more to be feared than a thousand bayonets."

## **Conclusion**

The media, military and the government must co-operate to ensure peaceful and progressive society. The military must receive the favourable attention of the media. The

power of the written or spoken word has significance influence on the society. The power of the media as agents of national mobilisation is obvious in the history of revolutions all over the world. At this stage of Nigeria development, it is necessary for the Nigerian Military to undergo a re-structuring exercise that would result in a greater co-operation and popular support.

### **Recommendations**

1. The mass media in Nigeria should be used to enhance and sustain the security of the nation. This means that mass media should never be used as divisive instrument among the people of Nigeria but rather should be used for the promotion and consolidation of national unity and integration.
2. The mass media should continue to function as a watchdog of the society and as a fight dog by exposing political evils and dishonesty in government and political circles. However, Nigeria as a developing nation needs a press more attuned to developmental reporting than with conflicts and crises; and that the mass media should exercised caution in the reportage of politically-motivated conflicts.
3. Regular workshops on conflict reporting, journalism ethics, mass media in a multi-cultural society, reporting terrorism, professionalism in journalism, among other are essential to continually keep media newsmen abreast with trends in mass media use in combating insecurity in Nigeria. This would ensure that the mass media are not used to worsen the problem of insecurity due to lack of knowledge on how to handle this specialised journalism area. It is recommended that the military and other security operatives should work with media practitioners as watchdogs of the society.

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## **IMPACT OF INFORMAL CREDIT ON OUTPUT OF SMALL SCALE FARMERS IN NIGERIA**

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**Abstract:** *The study examined the impact of informal credit on output of small scale farmers in Oju local government area of Benue state. The study used primary data that were sourced from 290 respondents using structured questionnaire. T-test and structural equation modeling were used for the data analysis. The study found that the small-scale farmers in the Oju Local Government Area of Benue State have been able to increase their farm output as a result of the credits they obtained from informal financial institutions. Therefore, the study recommends that the informal financial institutions should make more credit available to the small-scale farmers while the operators of informal financial institutions strengthen and improve their operations to make credit readily available to farmers. The study also recommends that government should encourage the small scale farmers by providing a good platform where the small scale farmers can get necessary and relevant information through the activities of the agricultural extension workers as that may improve output of the small scale farmers.]*

**Keywords:** *Informal credit, farm output, small scale farmers.*

**JEL Classification:** *E51, H81, O17, Q12, R15*

### **Introduction**

Agriculture is vital in the developmental pursuit of every country and Nigeria in particular due to the abundance of its natural resource endowment. Thus, developing this sector to fully maximize the utilization of these resources, which are capable of gearing economic development, should be a priority to the Nigeria government. Agriculture has contributed immensely to the Nigerian economy in so many ways, for example, in the provision of food for the increasing population, supply of adequate raw materials to a growing industrial sector, a major source of employment generation, foreign exchange earnings, and provision of market for the products of the industrial sector (Okumadawa, 1997; Food and Agricultural Organization, 2006). Similarly, Okpanachi (2004) opined that at

independence in 1960, the agricultural sector was the most vibrant sector of the economy. Agriculture is an important aspect of the national security of any nation because it is linked with the two most basic needs of human beings: food and clothing. It employs the majority of the Nigerian labour force and contributes to gross national income and export earnings. In the words of Philip, Nkonya and Pender (2009), agriculture remains the main stay of the Nigerian economy since it is the largest sector in terms of its share of employment. However, the Nigeria agricultural sector is characterized by a multitude of small-scale farmers scattered over a wide range of land area expenses, with small holdings ranging from 0.05 to 3.0 hectares per farm land, rudimentary farming tools and systems, low capitalization and low yield per hectare (Ogundari & Ojo, 2007), leading to a shortage of food supply. The food problem has been heightened by the relatively unavailability and low level of productive resources such as finance, seeds, and tools used by farmers in the country, a condition that is worsened by insufficient credit, especially from the formal sector, and the poor use of available credits.

Agricultural credit (either formal or informal credit) plays a significant role as a factor of production that facilitates economic growth and development and acts as a medium through which funds are appropriately channeled to agricultural production and to rural areas for the economic development of poor rural farmers. Support for agriculture is widely driven by both the government and the private sector. The various regimes in Nigeria have made concerted efforts to strengthen the agricultural sector. In addition to government efforts, individuals over time have engaged in the practice of forming associations to facilitate and encourage agricultural activities. An informal financial institution is an example of such an association that complements the government role by providing credit to farmers. Therefore, informal credit remains an essential source of credit to small-scale farmers, particularly in rural areas. The problem of rapid agricultural development in Nigeria indicates that efforts directed at achieving an expanded economic base of rural farmers were frustrated by scarcity of and restrictive access to loanable funds (CBN, 2010). Notably, among the constraints to the availability of capital to small-scale farmers is the refusal of commercial banks to extend their credits to small-scale farmers, which is anchored on their assumption that this class of farmers is poor and lacks the necessary collateral to access credit facilities. Another constraint is the obviously low margin of savings among farmers. This is prevalent among the small-scale farmers in the Oju local government area of Benue State.

The inability of small-scale farmers to access credits from formal financial service providers made these classes of farmers create their own indigenous financial institutions (such as informal savings and credit institutions) independent of the formal structures as an alternative measure toward bettering their lots in rural areas (Ochepo, 2012). There have been an increasing number of informal credit institutions in Benue State and Oju Local Government Area in particular to satisfy the credit needs of small-scale farmers. Thus, an understanding of the operations of informal financial credit institutions, particularly in relation to agricultural output in the study area, is imperative.

Informal financial institutions bear various names depending on the tribe or locality where they are operated. Among the Igede speaking people are called Ibi, Bam in Tiv, Adashi in Hausa, Esusu in Igbo, Isusu in Yoruba and so on. The informal financial institutions are unregistered, unlicensed and officially unorganized. Usually, these institutions are forms of saving groups formed by people living in the same locality. The members meet regularly

to fulfil their financial responsibility as needed. However, there are different forms of informal financial institutions in Nigeria financing rural farmers. However, their impact on the production and productivity of rural farmers still leaves much to be desired.

The Oju Local Government Area is one among the relatively less developed Local Government Areas in Benue State. Its inhabitants depend heavily on agriculture as the major source of livelihood. However, there are only two formal financial institutions (United Bank for Africa UBA and Union Bank of Nigeria Plc) in the area at present. This constrains the ease with which formal credit can be accessed by rural farmers. Thus, it is obvious that the activities of informal financial institutions appear to be more pronounced fund small-scale farmers are increasingly patronizing them. However, research has not been extensively conducted to assess the impact of credit from this growing number of informal financial service providers on the agricultural output of small-scale farmers in the study area. It is against this background that this study was set to investigate the effect of informal financial credit on the output of small-scale farmers in the Oju Local Government Area of Benue State. This research work provides insight for policy makers on the approach to be adopted for credit disbursement to enhance increased financial flow and increased agricultural output in the study area. The findings of the study also direct the awareness of farmers towards how to channel informal credit towards improving their farm production.

## **Literature review**

### *Theoretical Review*

The neoclassical theory of production is based on the ideas of neoclassical economists, especially Adam Smith's work titled 'Enquiry into the Nature and Causes of the Wealth of Nations' published in 1776. Neoclassical theory of production states that by varying the amounts of labour and capital in the production function, an equilibrium state can be accomplished. When a new technology becomes available, the labour and capital need to be adjusted to maintain growth equilibrium. The theory also forecasts how a steady economic growth rate can be accomplished with the proper amount of the three driving forces: Labour, Capital, and Technology. Hence, the mission of increasing agricultural output to sustain food requirements could be facilitated through the efficient management of productive resources (Ohuche, 1999). According to the theory, credit has the potential to enhance efficient resource allocation, permit the application of new technology, reduce postharvest waste, stabilize farm prices and farm income and enhance the efficient marketing of agricultural products.

As important as credit is to an economy, a situation of high optimism and expectation over the use of credit may be induced if adequate supervision and prudential guidelines for credit control are not put in place. If the overuse of credit is induced, speculation, inflation, and economic instability will be the result. Under normal conditions, changes in credit influence agricultural output in the short run provided there is no idle resource. Expansion in credit stimulates aggregate output without unduly undermining price stability if there are no constraints. If such constraints exist, expansion of credit tends to cause the price of output to increase. This is because the use of credit with such constraints will not be able to absorb the credit expansion and translate it into agricultural output growth. The problem of credit diversion or use outside agricultural business is prevalent among farmers. Nnana (2001) opined that farmers with effective demand for credit are those who can benefit from



the use of loans and have the ability to repay productive loans and accept responsibility. He explained that farmers with effective demand for loans are those who are using or ready to use improved practices. The question of interest is whether informal financial credit, over the years, has been effectively used to effect farmers' output in the study area. This theory is limited because of the evident failure of at least some producers to optimize the use of the credit. It is therefore desirable to recast the analysis of production away from the traditional production function approach toward a frontier-based approach.

The neo-classical theory of production emphasizes that resources must be available and should be put into efficient use to achieve optimum production. This is directly linked to the goal of informal financial institutions in making finance available to farmers for productive use. These loans are often paid back upon maturity. However, the objectives of the informal financial institution cannot be fully actualizing without making money available to the farmers and ensuring that these monies are efficiently used to achieve improved production. Farmers' welfare can be improving with the efficient use of loans from these institutions and, hence, the specification of the neoclassical institutions, which is to improve the satisfaction of the credit needs of small-scale farmers in the Oju Local Government Area of Benue State.

Furthermore, the Harrod-Domar model hinges on savings and investment balance. Based on a number of simple assumptions, they envisaged that an economy is in equilibrium at a point of intersection between savings and investments. They recognized the dual nature of investment as also forming part of human capital stock. Thus, the increase in a country's capital stock increases the economy's potential output. This theory emphasizes the importance of savings and investment in enhancing rapid economic growth. The theory is of immense relevance to this study in that it encourages the mobilization of savings. This savings will go a long way in making funds available for investment and constitute an encouragement to the small-scale farmers in their farming practice. The availability of a place to satisfactorily borrow funds by these farmers expressly acts as a solution to the lingering challenge of difficulty in financing farming activities, especially among small-scale farmers.

The financial repression theory led by Mckinnon and shaw (1973), often referred to as the "Mckinnon-Shaw" hypothesis, contends that financial liberalization in the form of an appropriate rate of return on real cash balances is a vehicle of promoting economic growth. The essential tenet of this hypothesis is that a low or negative real interest rate discourages savings. This reduces the availability of loanable funds for investment, which in turn lowers the rate of economic growth. Thus, the "Mckinnon-Shaw" model posits that a more liberalized financial system induces an increase in savings and investment and therefore promotes economic growth. The essence of credit facilities is that capital is required by farmers for agricultural production; however, the available literature has shown that financial resources are grossly insufficient, necessitating the need for alternative credit sources. Thus, informal financial institutions function to close this gap in financial scarcity among small-scale farmers; hence, readily available sources of credit to farmers will force down the interest rate.

#### *Empirical Review*

According to Lolita (2006), small-scale farmers are increasingly found to be patronizing informer credit sources in the Philippines. The study was on the "accessibility of rural

credit among small farmers in the Philippines”. Descriptive statistics analysis was adopted to analyse the data. The study revealed that the rate of obtaining loans from formal financial institutions in developing countries by rural borrowers is low due to the complicated and lengthy procedures that overwhelm poor and uneducated farmer-borrowers. In other cases, credit problems that have restricted them from borrowing include commodity-specific credit, lack of participation in rural areas, and late releases of loans that led them to borrow from informal sources. Otunaiya (2007) also carried out a study to investigate the access of cassava farmers to the only alternative source of capital investment, informal credit. The study employs logit regression analysis. The outcome of the study indicates that the amount of loans received from informal sources has a positive effect on the output of cassava farmers. It is significant at the 1 percent level. This shows that the availability and the amount of loan obtainable from informal sources is a determinant of the level of production of cassava farmers. This is because farmers would have, at least, some investment capital to buy production inputs that would raise the output level. Hence, as the amount of loans receivable from informal sources increases, the production of cassava improves. While farm size, years of formal schooling, household size and hire labour determine the volume of credit used from informal sources, the amount of credit used was found to be very significant in determining the level of cassava output in the study area.

An investigation into the sources and uses of agricultural credit by small-scale farmers in the Surulere Local Government Area of Oyo State using descriptive statistics, Adebayo and Adeola (2008), revealed that informal credit was mostly used by small-scale farmers in the study area. It is evident from the study that dependence on co-operative societies for agricultural credit was the highest, followed by personal savings and friends/relatives, which was closely followed by ‘Esusu’ clubs (traditional savings association). The study further revealed that co-operative societies accounted for the most dependable source for credit of the small-scale farmers because, according to the respondents, the societies also perform the additional role of helping the members market their produce as well as bulk-purchase of farm input for members. The nonpatronage of commercial banks may be due to a lack of presence of banks in rural areas coupled with inadequate security on the part of farmers, which prevented them from accessing formal loans.

Waheed (2009) investigated the effect of rural microcredit on the well-being of borrowers in Punjab (Pakistan). The study uses regression analysis. His analysis posits that to improve the well-being of the rural poor, microfinance is proposed to be primarily essential for investment in rural productive activities. The study concluded that per capital credit on nonpoor farmers was better than per capital credit on poor farmers. Micro credit was largely taken by the nonpoor, and the poor had little access to microcredit. Abdullahi and Lawal (2011) investigated the impact of informal agricultural financing on agricultural production in the rural economy of Kwara State of Nigeria. Three units of the informal financial institution, namely, periodic contribution, moneylender and rotating savings, were the focus of the study. The study covered the rural areas of the three Senatorial Districts in nine Local Governments Area of the state. The analysis was based on inferential statistics using regression analysis. The findings indicated that all three informal financial institutions positively impacted agricultural production in the study area. Olagunju and Babatunde (2011) examined the impact of informal credit on poultry productivity in southwestern Nigeria through the administration of questionnaires. The study employs descriptive statistics. The outcome of the study showed that credit acquisition by farmers led to

increased productivity. Ahmed (2011) revealed that there is a positive relationship between informal credit and agricultural output. Credit is always helpful for needy farmers to buy agricultural inputs. Therefore, credit has an indirect impact on output because it is important to purchase different agricultural inputs that have a strong impact on agricultural output. Davi (2012) corroborated the study report; he found that agricultural credit not only helps to increase productivity but also develops the process of cultivation as a whole. She argues that there was an enormous increase in the usage of modern seeds, modernized inputs, fertilizer and pesticides after receiving agricultural credit, which increased yield per acre and thus the income of the farmers. She further observes that the impact of agricultural credit was more significant in nonirrigated and semi-irrigated villages than in irrigated villages. Victor and Abankwah (2012) examined the credit demand by maize farmers and analysed factors influencing their use of informal and formal credits. A survey of 590 maize farmers in seven districts of Ashanti and Brong Ahafo Regions of Ghana was used. The study employed descriptive statistics and probit and bivariate probit models to analyse the data. The study revealed that farmers patronize informal credit providers more relative to credit from friends, traders and other money lenders. Maize farmers are major players in the informal credit market. Rural financial service providers are the most prominent in the study area when compared to formal financial service providers. Gender, experience, engagement in other economic activities and the level of agricultural commercialisation were observed to be factors that influence farmers' demand for informal credit. Farmer educational level and proximity to financial institutions also influence demand for formal credit. The result of the bivariate probit suggested that formal and informal credits are not necessarily perfect substitutes, but they complement each other to provide the credit requirement of farmers in maize production in the study area.

Investigating the effects of informal financial credit institutions on the output of small-scale farmers in the Agatu Local Government Area of Benue State, Ochebo (2012) revealed a significant positive relationship between informal credit and small-scale farmers' output. The study uses econometric methods of regression analysis to establish the effect of informal credits on the output of small-scale farmers. The study shows that small-scale farmers often suffer neglect by formal financial service providers. Small-scale farmers often cannot access formal credit due to the stringent conditions associated with such loans. According to the study, farmers easily access loans from informal financial institutions that are characterized by inadequate capital. One's membership in an informal credit institution therefore gives a farmer the opportunity to obtain a loan easily. The study indicated that the output of small-scale farmers increases with the volume of loans. The output of credit beneficiary farmers is higher than that of nonbeneficiaries.

Gyeltshen (2012) investigated household credit demand, the degree of loan rationing by credit sector and household credit choice in rural Bhutan. The study provided results from a survey of 120 households among three subdistricts of rural Bhutan. A bivariate probit model was used to estimate all three models. The study found that a significant percent of the rural population depends on both formal and informal credit as a source of credit despite huge interest rate differentials. Informal loans were mostly obtained for consumption purposes, while formal loans were in most cases obtained for long-term investments. The findings suggested that complementary markets such as insurance markets are an essential part of financial services. Anchuku (2012) concluded in his study on informal financial institutions and the development of rural areas in Benue State that informal finance plays

a significant role in enhancing rural development. The study uses simple descriptive statistics such as tables, frequencies and percentages in data analysis. It also reveals that informal financial institutions provide employment opportunities to people in the Gwer-West Local Government Area, the study area. The institution also helps in uniting the people of the study area, thereby harmonizing their differences. The study recommended that the government finance informal financial institutions to increase their lending power. This will enable the institutions to discharge financial duties to rural dwellers with much ease.

In the study on “sources of agricultural credit to small-scale farmers in Ezeagu Local Government Area of Enugu state, Nigeria”, Mgbakor, Uzendu and Ndubbisi (2014) established that most farmers prefer informal credit to former credit. The data collected were analysed using descriptive statistics, which included frequency distribution tables, percentages and averages, to achieve the objective of the study. The study revealed that farmers in the study area engaged themselves in the production of crops such as cassava, maize, yam, oil palm and vegetables. The majority of these farmers agree to have other complementary work, such as win tapping, hunting, weaving of local baskets and petty trading. Most of the farmers agreed to have sought and obtained credit, while some said that they had not sought credit because of fear of adverse crop yield/weather hazards and were not aware of the existence of credit institutes. Many of the farmers who have obtained credit prefer informal sources, such as relatives, neighbors and money lenders, for easy accessibility, minimize formalities and timely disbursement of loans to former institutions. The respondent who sought credit obtained it on basis or repayment security offered. Some found the lending exercise time consuming, some cumbersome while some believed there was no stress in collecting the credit.

Agbo, Iroh and Ihemezie (2015) examined access to credit by vegetable farmers in Nigeria in the Owerri agricultural zone of Imo State. A multistage random sampling technique was used to select 120 vegetable farmers. Descriptive and inferential statistics, logit model and factor analysis were used for data analysis. The results showed that education and land tenure had a significant relationship with access to informal credit, while education, household size, off-farm income and farming experience had a significant relationship with farmers’ access to formal credit. The factor analysis results showed that the constraints against vegetable farmers in obtaining formal credit in the study area were the untimely delivery of credit, bureaucratic processes, high administrative charges, high interest rates, high transaction costs, unreliability and hidden charges. It was evident from the study that vegetable farmers in the study area did not have access to credit facilities, especially from formal financial service providers. Okpachu, Madu and Oche (2017) conducted a study on the assessment of the impact of informal financial institutions on agricultural production in Yobe State, Nigeria. The data collected were analysed using regression analysis. Three units of the informal financial institution, namely, periodic contribution, moneylender, and rotating savings, were the focus of the study. According to the study, the provision of agricultural credit by rural informal financial institutions has enabled rural farmers to increase their production on a larger landholding with increased farm labourers. Moreover, the increased financing by informal institutions also serves as a source of income to rural farmers as a sufficient surplus for sale after removing home consumption. The study concluded that all three informal financial institutions impacted agricultural production in the study area. Periodic savings and savings both impacted positively, while money lending

impacted negatively. Farmers are motivated by the credit given to them by informal financial institutions.

## METHODOLOGY

### *Sample Size and Method of Data Analysis*

The research design adopted for this study is a survey design. The study employed both descriptive and analytical techniques. The analytical technique consists of a t test and structural equation modelling (SEM) to examine the mean difference in the annual output of small-scale farmers before and after accessing informal financial credit and the impact of informal credit on the output of small-scale farmers in Oju LGA of Benue State, respectively. The study area covers the whole of the Oju Local Government Area of Benue State. The Oju Local Government Area of Benue State has very fertile land, and approximately 80% of the inhabitants are farmers. Its rich and diverse agricultural endowment includes yam, rice, benniseed, guinea corn, palm, soyabeans, maize, millet, ground nut and cassava. The people of the Oju Local Government area are also involved in livestock keeping, fishing and hunting.

The population of this study covers the total number of small-scale farmers in the Oju Local Government Area of Benue state who have obtained/benefited from informal financial credit. Thus, the population was drawn from informal financial institutions in the study area. Three informal financial institutions were randomly selected from each of the eleven council wards of the local government area. The sum total of members from the various co-operative societies formed the population of the study. Thus, the population of the study was one thousand one hundred and twenty-three (1123) small-scale farmers. The study employed stratified sampling, simple random sampling and proportionate sampling techniques. Simple random sampling was used to avoid bias and to ensure that each respondent (beneficiary) had an equal chance of being selected. On the other hand, proportionate random sampling was used in selecting respondents (beneficiaries) proportionate to the size of the population of the selected informal financial institutions. Given that the population of the study is in strata (council wards), a stratified random sample was used to select three informal financial institutions from each stratum (council ward). Using the Krejcie and Morgan (1970) formula to determine the sample size.

$$S = \frac{(X^2 NP(1-P))}{(d^2(N-1) + X^2 P(1-P))} = \frac{1.96^2 * 1123 * 0.5(1-0.5)}{0.05^2(1123-1) + 1.96^2 * 0.5(1-0.5)} = \frac{1,078.5292}{3.7654} = 286.4315 \approx 290$$

(approx. to tens)

where S= Required Sample Size, X= Z Value (that is 1.96 for 95% confidence level), N= Population Size, P= Population proportion (expressed as decimal) (assumed to be 0.5 (50%)), d= Degree of accuracy (5%) expressed as a proportion (0.05); it is margin of error. The sample size for the study is 290 beneficiaries, which are proportionately distributed across the selected informal financial institutions from which the study population was drawn.

Primary data and secondary data were used. The primary data were collected with the use of a structured questionnaire. The questionnaires were distributed to small-scale farmers and informal financial institution operators who could read and write to complete, while the illiterate were guided by research assistants in each of the council wards who

understood the native language of the people for clear interpretations. The secondary data were collected from the financial records of the informal financial institutions.

Three methods were used to analyse the data collected. These are descriptive statistics, t tests and structural equation modelling (SEM). The descriptive statistics consist of simple percentages, frequencies, means, charts and proportions. It was used to examine the data that were collected for the study and the sociodemographic characteristics of the small-scale famers in the study areas. The analytical tools consist of a t test to examine the mean difference in the annual output of small-scale farmers before and after accessing informal financial credit and the structural equation model (SEM) technique to examine the impact of informal credit on the output of small-scale farmers in the study area. The study assumed two paired samples  $X_1, \dots, X_{290}$  and  $Y_1, \dots, Y_{290}$ , where each  $X_i$  and  $Y_i$  are measurements from the same person say before informal financial credit and after informal financial credit for t test. It is aimed at testing if there is a difference in means of the samples before and after the informal financial credit. Hence, the t test was used to examine the significant difference between small-scale famers' output before and after obtaining informal financial credit. This enabled the researcher to test whether there is a significant difference between the annual farmers' output (valued in monetary terms) before and after the benefits of informal financial credit, as discussed earlier. This is based on the assumption that the inflation rate will be stable over the period covered for the study.

*Empirical Model*

The model is specified following Lawal and Abdullahi (2011) and Okpachu, Madu and Oche (2017)'s method of estimating the impact of informal agricultural finance as modified. The model used data on the input and output (aggregate crop mix) of farmers' farm size and educational level to measure farm output. The model can be depicted as:

$$FPT = f(FMP, FSH, EDU) \dots \dots \dots 1$$

where: FPT = farm total product in naira.

FMP = farm inputs such as amount of credit used (ACT), seedlings (SDS); labour (LAB), cost of fertilizer (FZR)

$$Thus FMP = f(ACT, SDS, LAB, FZR) \dots \dots \dots 2$$

When equation 3.2 is substituted into equation 3.1

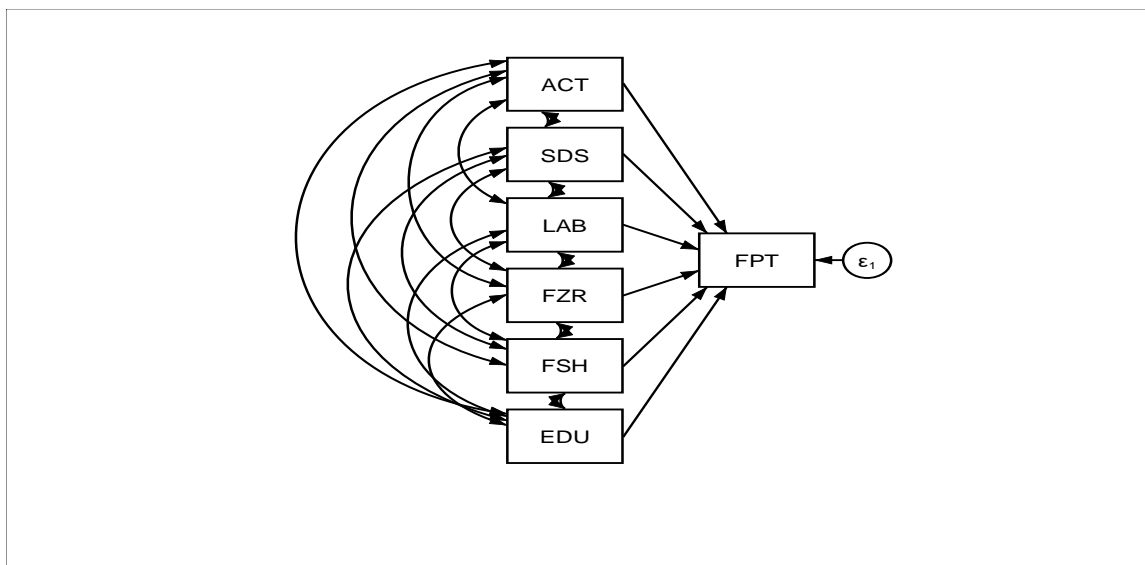
$$Then, FPT = f(ACT, SDS, LAB, FZR, FSH, EDU) \dots \dots \dots 3$$

The functional regression equation can be depicted as

$$FPT = \beta_0 + \beta_1 ACT + \beta_2 SDS + \beta_3 LAB + \beta_4 FZR + \beta_5 FSH + \beta_6 EDU + \mu \dots \dots \dots 4$$

where;. FPT = Farm total product of the small-scale farmers in naira, ACT = Amount of informal financial credit obtained in naira, SDS = Seedlings used in naira, LAB = Cost of labour (hired and family) in naira, FZR = Cost of fertilizers used in naira, FSH = Farm size in hectares, EDU = Education, and  $\beta_0$  = intercept,  $\beta_1 - \beta_5$  = Coefficients of the independent variables, and  $\mu$  = Error term. The SEM builder is displayed as follows:

**Figure 1: SEM builder model for the study**



Source: Author's computation 2018

## Results And Discussion

### *The Socio-Demographic Characteristics of Small Scale Farmers*

Data on the socio-demographic characteristics of small scale farmers in Oju Local Government area are compiled and presented in Table 1.

**Table 1. The Socio-Demographic Characteristics of Small Scale Farmers**

Age (years)	Frequencies	Percentages
Below 20	9	3.1
20-30 years	21	7.24
31-40 years	198	68.28
Over 40 years	62	21.38
Total	290	100
<b>Gender</b>		
Male	193	66.55
Female	97	33.45
Total	290	100
<b>Marital Status</b>		
Single	22	7.59
Married	212	73.1
Divorced	36	12.41
Widow/widower	19	6.55
Total	290	100
<b>Educational Qualification</b>		
No formal Education	26	8.97
Primary Education	37	12.76
Secondary Education	144	49.66

Tertiary Education	83	28.61
Total	290	100
<b>Number of Children</b>		
Less than 5	27	9.31
5 – 10	247	85.17
Above 10	16	5.52
Total	190	100
<b>Number of Dependents</b>		
Less than 5	52	17.93
5 – 10	235	81.03
Above 10	3	1.03
Total	290	100

Source: Field survey, 2022

The analysis of the results presented in Table 1 revealed that the majority (68.28%) of the sampled respondents fell within the age range of 31-40 years. This age bracket constitutes the most active population. Table 1 also shows that 21.38% of the respondents were older than 40 years. People in this age bracket are relatively strong and are able to exact good measures of energy in farming activities. This is because some people in this age category still fall within the active population. However, 7.24% of the respondents fell within the range of 20-30 years, while only 3.10% of the respondents were less than 20 years. The analysis further shows that the minimum age of the sampled respondents is 15 years, while the maximum age is 65 years, with an average of 44.8 years. Data in Table 1 also show that 66.55% of the sampled respondents were male, while the remaining 33.45% of the respondents constituted the female proportion of the selected sample in the study area. The high participation of the males can be justified because men are the heads of the family and shoulder most of the family responsibilities. Moreover, the strenuous nature of agricultural activities requires men who are more energetic by nature. Farming is a major practice by men in the study area.

Data on the distribution of the sampled respondents by marital status, as revealed in Table 1, show that the majority (73.10%) of the sampled respondents were married, while 12.41% of the respondents were divorced. The result also shows that 7.59% of the respondents representing 22 respondents were single, while the remaining 6.55% were widow/widower. This finding confirms the expectation that married persons have much more responsibility and thereby work much harder to make ends meet.

Table 1 shows that 49.66% of the sampled respondents had secondary education. This high number of persons in this educational level may not be connected with the high level of poverty in the study area. Financial constraints make it difficult for people to further their education after secondary education. The result also shows that 28.61% of the respondents had tertiary education, while 12.76% of the respondents had primary education. The remaining 8.97% of the respondents had no formal education. Based on the results, the majority of the respondents had basic education that would enable small-scale farmers to utilize the available farm resources to enhance their output. Data on the number of children of the farmers show that the majority (85.17%) of the sampled respondents have children



numbering between 5-10, while 9.31% have children that are less than 5 in number. Only 5.52% of the respondents had children numbering above 10. Table 1 also revealed that 81.03% of the sampled respondents have dependents numbering between 5 and 10 persons. This is common in African society, especially in rural areas where a man often has many people outside his immediate family to cater to. It is also revealed that 17.93% of the respondents have less than 5 persons under their care, while only 3 respondents representing 1.03% have only dependents that are above 10.

*Value of Output of Small Scale Farmers Before and After Informer Credit*

Data on the distribution of annual farm output realized (in monetary terms) from farms by the small-scale farmers in the study area before and after accessing informal financial credit are compiled and presented below in Table 2.

**Table 2. The Value of Farm Output of the Respondents Realised from Farming**

Annual output	Before Informal Credit		After Informal Credit
Respondents(N)	(Frequency/Percentage(%))		Frequency/Percentage
Less than N200,000	185 (63.79)		16 (5.52)
N200,000 – N300,000	94 (32.41)		177 (61.03)
Above N300,000	11 (3.79)	97 (33.45)	
Total	290 (100)	290 (100)	

Source: Field Survey, 2022.

The results from Table 2 also showed a significant improvement in the annual farmers’ output after accessing informal credit. The annual farm output of the majority (61.03) of the respondents in monetary terms after accessing informal credit was between the range of N200,000 and N300,000, with an average of N295444.8. This was against the farmers’ annual output of 32.41% in this bracket before the credit. Additionally, 33.45% of farmers’ output was above N300,000, compared to 3.79% in this category of output before credit. Only 5.52% of the respondents still produced less than N200,000 after the credit, compared to 63.79% before credit. This increase is, however, credited with the credit facilities available to the farmers in the study area. This conforms to the tenet of the neo-classical theory of production, which holds that an equilibrium state can be achieved by varying the amounts of labour and capital used in the production exercise. Furthermore, the model stated that steady economic growth can be accomplished with proper management of available inputs such as capital, labour, and technology. This implies that an increase in farm output is credited not only to the availability of credit facilities but also to the efficient management of the same. Thus, the goal of increasing farmers’ output could be facilitated through the efficient management of productive resources. Evidence suggests that productivity in the agricultural sector will improve increasingly with better and timely access to financial instruments tailored to the needs of farmers.

Farm credit is obtained for the purpose of improving farming activities both in the amount of land cultivated and in output. In an ideal situation, it is expected that an increase in farm input will translate into an improved farm output. Tests on the difference in the small-scale farmers’ output before and after obtaining informal credit are presented in Table 3.

**Table 3. The Mean Difference in Annual Output of Beneficiaries**

Variable	Mean	N			T-test
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			Mean Diff.	Dof	Value	Prob.
Before Informal Financial Credit (AFOBCRN)	174,896.6	290	120,548.2	289	7.3595	0.0000
After Informal Financial Credit (AFOACRN)	295,444.8	290				

mean(diff) = mean(AFOACRN - AFOBCRN)      Ho: mean(diff) = 0  
 Ha: mean(diff) < 0      Ha: mean(diff) != 0      Ha: mean(diff) > 0  
 Pr(T < t) = 1.0000      Pr(|T| > |t|) = 0.0000      Pr(T > t) = 0.0000

Source: Author's computation from STATA Output

The results in Table 3 show the mean value of ₦174,896.6 for the average annual output of beneficiaries before informal financial credit and ₦295,444.8 for the average output of beneficiaries after informal financial credit. The result shows a t test value of 7.3595 with a probability of 0.0000<0.05. The alternative hypothesis is that the mean difference is not equal to zero. The alternative hypothesis is further categorized into three, viz: the mean difference is less than zero (Ha: mean(diff) < 0), the mean difference is not equal to zero (Ha: mean(diff)!= 0), and the mean difference is greater than zero (Ha: mean(diff)>0). In rejecting a null hypothesis, at least two of the alternative hypotheses must be considered. From the results in Table 3, the t test value of 7.3595 is statistically significant at the 5% level of significance (p =0.0000<0.05). This means that the null hypothesis of the mean difference equal to zero is rejected. This implies that the mean difference between the annual output of small farmers before and after informal credit is significantly different from zero. This indicates that there is a significant difference in the averages of the annual output of the respondents in the sample before and after informal credit.

Since the value of output after informal financial credit is higher than that before, it implies that informal financial credit positively impacted the annual output of the respondents in the study area. This is because the improvement in the average output after informal financial credit was significantly different from the average annual output of beneficiaries before informal financial credit. It can be concluded, therefore, that the annual output of the small farmers differs significantly on their averages as a result of the benefit from informal financial credit.

*Impact of Informal Credit on Annual Output of the Small Scale Farmers (SEM)*

To investigate the nature of the impact of informal financial credit on the output of small farmers in the Oju Local government area, structural equation modelling was employed to estimate the cross-sectional data obtained from the field.

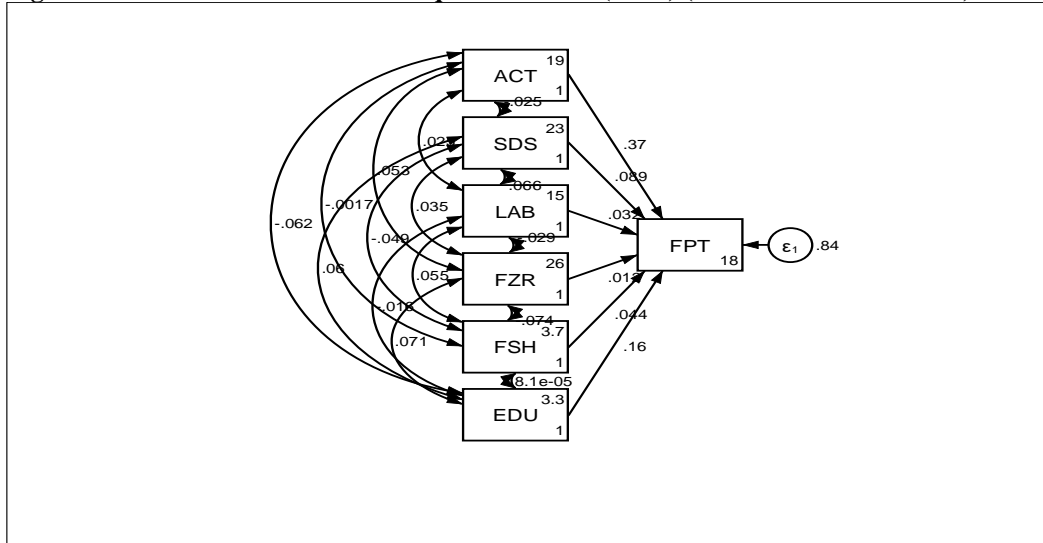
**Table 4. The Results of Structural Equation Model (SEM) (Standardized Estimates)**

Structural							
FPT <-							
ACT	.3654245	.0529445	6.90	0.000	.2616552	.4691938	
SDS	.089309	.0565757	1.58	0.114	-.0215772	.2001953	
LAB	.0315204	.0566578	0.56	0.578	-.0795269	.1425676	
FZR	.0117189	.0568443	0.21	0.837	-.0996938	.1231317	
FSH	.0440914	.0566753	0.78	0.437	-.0669902	.155173	
EDU	.1561646	.0562077	2.78	0.005	.0459995	.2663298	

_cons	18.42107	2.697217	6.83	0.000	13.13462	23.70752
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Source: Extract from STRATA Output

Figure 2. The Results of Structural Equation Model (SEM) (Standardized Estimates)



Source: Extract from STATA 14.2 Output

The results on the nature of the impact of informal financial credit on the output of the small-scale farmers as presented in Table 4 are presented in the standardized estimates as seen in Figure 2. The results conform to the theoretical expectations of the relationships among the variables and the nature of significance. The result shows that the amount of informal financial credit obtained (ACT) has a positive and significant impact on the output of small farmers in the Oju Local government area of Benue state. This implies that a 1% change (improvement) in the amount of informal financial credit obtained leads to a 0.36% unit change in the output of the small farmers in the study area. This is in line with the theoretical or a priori expectation and conforms to the findings of Igwe (2018), Upton (1996) and David (2007).

The estimated coefficients of Seedlings (SDS), Cost of labour (LAB), Cost of fertilizers used (FZR) and Farm size in hectares (FSH) are positive but not statistically significant at the 5% critical level. This implies that the increase in seedlings, cost of labour, cost of fertilizers used and farm size in hectares by the small farmers in the Oju Local Government Area of Benue State does not significantly influence the output of the small farmers. Hence, seedlings, cost of labour, cost of fertilizers used and farm size in hectares are theoretically plausible but not statistically significant at the 5% level of significance.

The estimated coefficient of education by the small farmers in the study area shows a positive sign in the estimate of the structured equation model. The result shows a positive sign that conforms to the theoretical expectation of the relationship. The estimated coefficient is also statistically significant at the 5% level of significance. This implies that the education of small-scale farmers has a strong influence on their output level by 0.156%. This means that highly educated small-scale farmers obtained higher yields than less educated small-scale farmers because of the education they acquired.

The result also shows that holding every other variable incorporated in the model constant, the output of small farmers can be influenced positively and significantly at the 5% critical

level. This indicates that the level of small farmers' output is influenced not only by the variables explicitly captured in the model but also by other variables. The goodness and stability of the model was tested using chi-square, root mean squared error of approximation (RMSEA), comparative fit index (CFI) and Tucker–Lewis index (TLI) criteria. The result shows that the model is a good fit. This finding is an indication that credit and its efficient usage have the potential to bring about improved economic development by the redistribution of resources among the have and the have-not in the economy. This finding conforms to the postulation of the neoclassical production theory that credit has the potential to enhance efficient resource allocation, permit the application of new technology, reduce postharvest waste, stabilize farm prices and farm income and enhance the efficient marketing of agricultural products.

### **Conclusion and policy recommendations**

Agriculture plays a significant role in driving economic development. It is the major sustainer of the Nigerian economy, ranging from the provision of food, employment and raw material for industrial use. The sector has, however, not been adequately funded, which is evident in the poor facilities and low productivity of the sector. Small-scale farmers receive the most heat, as they are often denied access to credits from formal financial institutions. In an effort to finance their farm operations, this class of farmers has created traditional financial institutions from which they are sure of easily accessing funds for their farm operations as the need arises. The small-scale farmers in the Oju Local Government Area of Benue State have been able to increase their farm output as a result of the credits they obtained from informal financial institutions. The study recommends that

The informal financial institutions should make more credit available to the small-scale farmers because the majority of the farmers are within the economically active age and have the capability of making judicious use of credit facilities available to them. There was a significant positive difference in farmers' output before and after accessing informal credit. It is therefore recommended that small-scale farmers continually source credit to enlarge their farm sizes and increase their inputs. It is also recommended that operators of informal financial institutions strengthen and improve their operations to make credit readily available to farmers.

The study revealed many threatening challenges being faced by the small scale farmers. Top among these challenges is inadequate finance. The informal financial institutions generate their funds from the savings of their members and these savings are often considered low to ensure adequate finance for the borrowing needs of the farmers. The spillover effects of this scarcity has however resulted to high interest rate. The members of these institutions are therefore encouraged to improve on their savings so as to increase the monies available to the informal financial institutions. The small scale farmers are also encouraged to make effort to ensure the availability of storage facilities. Good storage facilities will not only reduce damages cause to farmers do to spoilage but will also ensure the availability of food through all season. The farmers should also make effort to properly address the issues of pest and disease which often lead to poor harvest and post-harvest damages. The small scale farmers should develop themselves with regards to acquiring formal education due to the importance of education in enhancing improve agricultural productivity. It is also recommended that government should encourage the small scale

farmers by providing a good platform where the small scale farmers can get necessary and relevant information through the activities of the agricultural extension workers. Such agriculturally based education will ensure improve output of the small scale farmers.

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## EFFECT OF HUMAN ASSET DEVELOPMENT ON ORGANIZATIONAL PERFORMANCE IN NIGERIA

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**Abstract:** *To survive, organizations must explore all available avenues that can bring about competitive advantage. It is important that firms truly leverage on the workforce as a competitive weapon, thus the study examined the impact of human asset development on organizational performance. The specific objectives were to: examine the impact of employee self-efficacy on organizational efficiency and ascertain the influence of employee's experience on organizational survival. The study adopted survey research design while the population of the study constitute of 138 employees of CBN Ilorin Branch Kwara state, Nigeria. A sample size of 102 respondents was arrived at using Taro Yamane's (1976) formula. A structured questionnaire was developed by the study which was validated and distributed by the researcher using simple random sampling techniques to the respondents of central bank of Nigerian in Ilorin, Kwara State, Nigeria. The study was analyzed using multiple regression analysis. The findings of the study revealed that Employee's self-efficacy has a significant impact on organizational efficiency with  $R^2 = 85\%$   $p\text{-value} = 0.000$ , and that Employee experience is affected by organizational survival with  $R^2 = 99\%$   $p\text{-value} = 0.000$ , as employees progress on the job and work in cordial relationship with their boss/supervisors, self believe on accomplishing task quicker and better is improved. The study recommended that Employee self-confidence is important for the job as the competency and capability of employees.*

**Keywords:** *Human asset Development, Organizational Performance, Employee self-efficacy, Employee's experience*

### Introduction

A strategy for improving workforce productivity to drive higher value for the firms has become an important focus. Firms seek to optimize their workforce through comprehensive human asset development programmes not only to achieve business goals but most important is for the long term survival and sustainability of the organization. To accomplish this, firms will need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a rapidly changing and complex environment (Marimuthu, Hassan, & Johl, 2009). The human resources create value chain in an organization because no work can meaningfully take place without the indispensable contributions of the human resources. The most automated activities irrespective of the level of sophistication still require human resources intervention to ensure organizational efficiency and excellent performance. Human asset development on the one hand will make all organizational resources to become the life blood of organization because they will continuously surpass customers' expectations and compete favorably in this competitive business environment that is saturated with all kinds of technological advancement (Aboagye, & Benyebbar, 2010)

In the opinion of Hettiararchchi and Jayarathna, (2014), the most important asset of every organization is the human resource because while other organizational resources including materials and finance are in themselves idle, the human resources is the most active and of course the “activator” or “mobiliser” of other factors. Meier and Gross (2015) asserts that organizations wastages, repeated losses, poor service delivery, poor quality service and non-compliance with customers’ specifications which adversely affect the performance of organization will all become a thing of the past if an organization takes the issue of human asset development seriously. Therefore, this study would find out the impact of human asset development on organizational performance.

### **Statement of problem**

The fundamental problem of most organizations in our world today is that they desire excellent performance, organizational growth, operational efficiency, workers’ excellent exploit and management effectiveness. Yet, they take the issue of continuous human asset development with levity. The organization that will stand up with its shoulder raised high in this our age that is saturated with daily technological advancement, changes in customers’ tastes and fashion, changes in customers’ expectations and needs, frequent changes in government policies and changes in all spheres of business as caused by political, economic, socio-cultural factors among other factors cannot be indifferent to the issue of human asset development (Baron & Armstrong, 2007).

Nevertheless, the issues of human asset development are not taken seriously by any organizations, this is because of the failure to acknowledge the fact that business setting has become very active and as such only those organizations with the right informational need in the business times can succeed with the right technological manpower to succeed in modern times. This study will therefore fill this gap by examining the effect of human asset development on organizational performance.

### **Research Objectives**

The main objective of this study is to examine the impact of human asset development on organizational performance. While the specific objective are to:

- examine the impact of employee self-efficacy on organizational efficiency;
- ascertain the influence of employee’s experience on organizational survival;

#### *Research Hypotheses*

H01: Employee’s self-efficacy has no significant impact on organizational efficiency.

H02: Employee experience has no significant influence on organizational survival.

### **Literature review**

#### *Concept of Human Asset*

Specifically, Wood and de Menezes (2008) says that human asset management does not limit itself to only the mere award of salary or wages, instead, it concerns with the involvement of the organization as well as in the personal and professional development front regarding the individual employee’s capabilities and skills. Hence, it can be said that the investment on the training, education, skills and expertise and values significantly increase the overall job satisfaction and employee performance along with ensuring less number of job turn over in the organization.

### *Human Asset Development Measurement Approach*

The conventional measurement processes and techniques are identified to be in terms of three aspects as outcome, cost, and income approach. The approaches are identified as following underneath (Cooper & Schindler, 2008):

1. Outcome-based approach: The outcome-based approach is attempted to estimate the stock of human asset utilized as proxy of resource costs. However, the method includes drawback in student's effectiveness and can be identified as participation in productive activities. Again, according to Eigbiremolen, and Anaduaka (2014), the prior studies shows that the measurement is attempted to show the relationship in between the human asset and accumulated educational facility implementation years .

2. Cost-based approach: The cost-based approach is mainly dependent over the human asset sock and total cost investment estimation along with single human asset. The estimation of human asset in this approach is supported with utilizing the individual investment expenditure with depreciation, discounted future income as well (Armstrong, 2006)

### **Dimensions of Organizational Performance**

#### *1. Organizational Efficiency*

Efficiency measures relationship between inputs and outputs or how successfully the inputs have been transformed into outputs (Choudhury & Nayak, 2011). To maximize the output Porter's total productive maintenance system suggests the elimination of six losses, which are: (1) reduced yield – from start up to stable production; (2) process defects; (3) reduced speed; (4) idling and minor stoppages; (5) set-up and adjustment; and (6) equipment failure. The fewer the inputs used to generate outputs, the greater the efficiency.

#### *2. Organizational Survival*

Paying attention to this goal contributes to the satisfaction and execution of other organizational goals as Gross (2010) posits the concept of survival as an unwritten law of every organization. He suggests that every organization must regard survival as an absolute prerequisite for serving any interest whatsoever and those that does not have survival as a primary objective or goal should have re-think. The most objective way to measure survival in organizations is to observe their continuing existence (Sheppard, 2016). Carpenter, Bauer, and Erdogan (2010) supported three measures of organizational survival; adaptability, maintaining high performance standards and achieving functional performance goals.

### **Theoretical Review**

#### *The Knowledge-Based View (KBV)*

The development of a distinctive subset of the RBV, termed the KBV, has been driven by the work of Katou (2009). Therefore, the RBV as a theory in its mission to understand the entire firm fails to develop required depth on its component parts. Furthermore, as the RBV is quite static in nature, it cannot account for how knowledge develops and changes over time (The KBV focuses on knowledge as the most strategically important of the firm's resources.

## **Empirical Evidence**

Oduyoye, Adebola, and Binuyo (2013) examined the effect of human capital development programs in optimizing employee performance in Abia State House of Assembly. The research adopted survey research design, primary and secondary data was used, and questionnaire and oral interview was used in eliciting information from the respondents. The Population of the study consist of three hundred and fifty seven (357) employees of the organization, using Taro Yemen formula the sample size was deduce to be one hundred and eight nine (189), and simple random sampling technique was used to select the respondents. Descriptive statistics and Logistic Regression analysis was used to analyze the data obtained with the aid of SPSS version 20. The analysis was based on one hundred and sixty five (165) questionnaire well filed and returned. The researcher concluded that training, seminars, workshops, skill acquisition enhances employees performance when effectively and efficiently implemented and sustained, and thus, recommends that government should live up to their responsibility by adequately funding Abia State House of Assembly to enable them sustain the human capital development programs in the organization.

Egibiremolen and Anaduaka, (2014) examined the relationship between human capital development and corporate performance was investigated using Spearman's Rank Order Correlation Coefficient and using organizational culture as the moderating variable in food and beverages firms in Port Harcourt. The study utilized cross-sectional research design and used questionnaire to collect the primary data. Preliminary analysis was performed to ensure no violation of the assumptions of normality, linearity and equality of variance. The results of the analysis revealed that there were strong correlation between the dimensions of human capital development and the measures of corporate performance.

Ogbebor and Egbule (2006) investigated the effect of human capital development in organizational performance in manufacturing industries in South-East Nigeria. The specific objective includes to; ascertain the effect of knowledge on product quality and ascertain the relationship between skills and promoting of innovation. The study was to evaluate the effect of human capital development in organizational performance in manufacturing industries in South-East Nigeria. The population consists of 6230 staff of selected manufacturing firms from South-East, Nigeria. The study used the survey approach. The primary sources used were the administration of questionnaire to staff and distributors. The sample size of 358 was determined using Ferund and Williams formula. Skills have positive significant relationship on promoting of innovations  $F(95,n=358)=381.631, P<0.05$ ; The study concluded that any organization that does not learn continuously and is not able to continuously list, develop, share, distribute, mobilize, cultivate, put to practice review and spread knowledge will not be able to compete effectively in the global market. The study recommended that to it is important that organizations should training their staff to enable them acquire Knowledge to enhance productivity and the market share of the firms and Provision of new technological equipment and training of workers on the machines should be advised and encouraged for more profitability of the manufacturing companies.

**Methodology**

The study adopted survey research design while the sampling technique adopted is simple random and population of the study constitute 138 employees of CBN Ilorin Branch Kwara state. A total number of 102 questionnaires were administered to the staff of the organization which represents the sample size and was arrived at using Taro Yamane’s (1976) formula. The responses to the questionnaires were analysed using multi regression at 0.05 significance level for the study with the aid of SPSS.

**Data Presentation And Analysis**

*Test of Hypotheses*

*H01: Employee’s self-efficacy has no significant impact on organizational efficiency.*

**Table 1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919 <sup>a</sup>	.845	.841	.31944

a. Predictors: (Constant), Confidence, Capability, Competence

Source: SPSS printout, 2021

The model summary table shows that the R2 which is an indication of the coefficients of determination. The R2 0.845 gives approximately 85% which means that 85% (dependent variable) change in organizational efficiency can be explained by same percentage in Employee’s self-efficacy (Confidence, Capability, Competence) used by the organization. While the remaining 15% of the organizational efficiency can be determined by other variables.

**Table 2: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54.676	3	18.225	178.610	.000 <sup>b</sup>
	Residual	10.000	98	.102		
	Total	64.676	101			

a. Dependent Variable: organizational efficiency

b. Predictors: (Constant), Confidence, Capability, Competence

Source: SPSS printout, 2021

The ANOVA table is analyzed to see if any of the variables is significant, if the p-value is greater than 0.05 then we accept the null hypotheses from the ANOVA table, the p-value is 0.000 which is less than 0.05, the F statistics of 178.610 also implies that the model is fit. This shows that Employee’s self-efficacy has a significant impact on organizational efficiency.

**Table 3: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.361E-16	.090		.000	1.000
	Capability	-1.000	.180	-.495	-5.547	.000

Competence	3.000	.187	1.742	16.013	.000
Confidence	-1.000	.244	-.547	-4.099	.000

a. Dependent Variable: organizational efficiency

Source: SPSS printout, 2021

The coefficients of the individual independent variable indicated that Capability (0.000), Competence (0.194), Confidence (0.000) has a significant impact on Organizational efficiency. The t-statistics value of (-5.547) for Capability, (16.013) for Competence, (-4.099) for Confidence, and Beta standard coefficients (-0.495) for Capability, (1.742) for Competence (-0.547) for Confidence, further suggest that there is a significant relationship between Employee’s self-efficacy and Organizational efficiency. Since alpha level of 0.05 is greater than the p-value of 0.000. The conclusion therefore is that the null hypothesis is rejected while the alternative hypothesis is accepted. Therefore, Employee’s self-efficacy has a significant impact on organizational efficiency. The highest variable is competence (1.742), competence allows employees perform operations in the bank, competence ensures employees fit the job description of the job before being employed. Confidence (-.547) as a proxy although as a significant contributes little to employee self-efficacy indicating employees show little confidence on the job, also Capability (-.495) of employees needs to be improved as the standard set is not met by employees. According to Thelma (2017) attitude to work of employees is vital, employees with high confidence level achieve more and productive of which improves employee productivity and also overall organizational performance.

*Hypothesis two*

*H02: Employee experience has no significant influence on organizational survival.*

**Table 4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996 <sup>a</sup>	.993	.993	.07265

a. Predictors: (Constant), Idea, Skills, Speed

Source: SPSS printout, 2021

The model summary in table 1 above shows that the R2 which is an indication of the coefficients of determination. The R2 (0.993) gives approximately 99% which means that 99% (dependent variable) organizational survival can be explained by Employee experience (Idea, Skills, Speed) used by the organization. While the remaining 1% of the organizational survival can be determined by other variables.

**Table 5: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	73.296	3	24.432	4628.857	.000 <sup>b</sup>
	Residual	.517	98	.005		
	Total	73.814	101			

a. Dependent Variable: organizational survival

b. Predictors: (Constant), Idea, Skills, Speed

Source: SPSS printout, 2021

The ANOVA in table 5 above is analyzed to see if any of the variables is significant, if the p-value is greater than 0.05 then we accept the null hypotheses from the ANOVA table, the p-value is 0.000 which is less than 0.05, the F statistics of 4628.857 also implies that the model is fit. This shows that Employee experience has a significant influence on organizational survival.

**Table 6: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.007	.014		-.515	.608
	Skills	.287	.023	.235	12.540	.000
	Speed	1.628	.055	1.606	29.675	.000
	Idea	-.908	.062	-.837	-14.617	.000

a. Dependent Variable: organizational survival

Source: SPSS printout, 2021

The coefficients of the individual independent variable indicated that Skills (0.000), Speed (0.000), Idea (0.000) has a significant impact on organizational survival The t-statistics value of (12.540) for Skills, (29.675) for Speed, (-14.617)for Idea, and Beta standard coefficients (0.235) for Skills, (1.606) Speed (-0.837)for Idea, further suggest that there is a significant relationship between Employee experience and organizational survival. Since alpha level of 0.05 is greater than the p-value of 0.000. The conclusion therefore is that the null hypothesis is rejected while the alternative hypothesis is accepted. Therefore, Employee experience has a significant influence on organizational survival. The highest variable is speed. Due to the enormous operation and transaction operated in the bank, the speed of employees are required to handle the bulk operations in the bank. The second variable Skills (.235) shows that employees have the skill set to perform the operations, also idea (-.837) of employees ideas is very important and management should allow for sharing of ideas in d organization. According to (Rabinowitz 2003) Knowledge is progressive, it evolves overtime. Experiential knowledge is an important asset which can be useful for the organization.

## Conclusion

Employee’s self-efficacy has a significant impact on organizational efficiency. Self-efficacy can lead considerably to high individual performance as confidence level of employees is increased. From the findings of the study, it was revealed that competence level of employees is high, as employees progress on the job and work in cordial relationship with their boss/supervisors, self believe on accomplishing task quicker and better is improved. Capability and confidence proved also to be significant self-belief in accomplishing individual task with sufficient

Employee experience has a significant influence on organizational survival. Employee experience is highly important for to work effectively in central bank of Nigeria. From the findings speed, skills and idea revealed to be significant which is very important. Employees speed to accept task and finish task in a short period of time helps saves time making employee efficient on the job. The skills to perform such transactions and complex



nature of the job, the skills of employees need to be highly rated, ideas of employees in essential in making decisions. To ensure the long term sustainability of the firm employee's ideas and opinions is highly needed to move the organization forward.

### *Recommendations*

- i. Employee training is very important and therefore should be given much attention to, provision of needed fund and giving the right education and knowledge of the banking operations to employees help increase their capability on the job.
- ii. Employees with sufficient working experience should be considered for employment due to the technical and complex nature of the job. Employee experience helps in improving the effectiveness and efficiency of the job, skills and speed of the employees makes the job faster and easier to perform and avoid wastage for the organization.

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## HUMAN CAPITAL DEVELOPMENT AND NIGERIA'S ECONOMIC GROWTH

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**Abstract:** *The study examined the effect of developing human capital on Nigeria's economic growth. Contextual analysis served as the main information source for this study, in addition to various documentary and electronic sources. The human capital theory is the foundation of this study. The study concludes that there is a clear and evident link between the development of human capital and economic growth in Nigeria and makes several recommendations, including encouraging private sector investment in health and education to increase their involvement in the delivery of human capital services to the populace. This assumes that government spending on the health sector is ineffective in addressing health challenges without private investment in health. Also, an increase in the welfare programs for health care workers in order to lower the misery index in Nigeria and prevent a mass flight of doctors and other health professionals from the country's shores is important as this would improve the quality of life for Nigerians.*

**Keywords:** *Human capital, economic growth, health, education, development*

**JEL Classification:** *E6, G3, O4*

### Introduction

Any nation's growth process depends heavily on its human capital. There are three types of capital that any corporate organization uses: intellectual capital, financial capital (investments), and physical capital (factories, stocks, etc). (Obeidat, 2016). A part of intellectual capital is also thought to be human capital. It encapsulates human-related factors like knowledge, skills, experience, sufficiency, business quality, employee relations, emotional intelligence, entrepreneurship, flexibility, employee loyalty, employee satisfaction, education, and creativity and serves as a representation of investments made in people (Isola & Alani, 2012). The significance of human capital is still significant when analyzing a country's growth rate, even though investing in people is often the most challenging investment to manage. The main goal of any economic system, whether it is market-based or centrally planned, is to raise per capita output, which can be done through raising productivity levels. Growth in per capita output is a factor in economic welfare. Experience has shown that, in addition to labor and physical capital, human capital is the most significant and promising source of increase in productivity and economic growth. Technology and equipment are creations of human minds, and only people can make them useful. Any productive program's success depends on the originality and ingenuity of its participants (Pangeran, 2015; Skapska & Samul, 2015).

Human capital development is the process of obtaining and expanding the number of people with the skills, education, and experience that are essential for a country's economic progress. Human capital refers to the abilities and skills of human resources (Eigbiremolen & Anaduaka, 2014). Theoretically, this Human Capital Development (HCD) has a favorable influence on economic growth. However, it could not be applicable or equally

accurate in all actual scenarios since this depends on a number of variables, including the level and quality of education, government policy on education, economic structure, and others. As a result, investigating the link between Nigeria's economic progress and the development of its human capital is an excellent empirical verification project that is unquestionably necessary. Nigeria is a nation with abundant natural and human resources (Sankay, Ismail & Shaari, 2010). Without taking into account the role that human capital plays in the development process, Nigeria used to rely on physical capital for its growth and development. In recent years, all nations around the world have come to regard human capital as a driving force behind national progress (Afridi, 2016). Human capital development becomes a key concern for policymakers and practitioners involved in economic development at the national and regional level as the global economy shifts toward more knowledge-based sectors and skills (such as the manufacturing sector like the manufacturing of ICT devices, pharmaceuticals, and telecommunication) (Adelakun, 2011, Amassoma & Nwosa, 2011). This has the potential to revitalize the economy of Nigeria. Studies by Schultz (1961), Denison (1962), Todaro and Smith (2003), among many others, confirmed that education is essential for the growth of an economy. Investment in education, according to Bachama, Hassan, and Ibrahim (2021), increases per capital. The growth of knowledge and the reduction of poverty are two ways that the gross national product (GNP) lowers inequality. They contend that spending on training and education has an impact on people's productivity. Because education is essential to the development of human capital, a nation cannot afford to leave it up to individual preferences. Similar to how it is essential to human development and growth, health is a major factor in determining economic performance both at the micro and macro levels. This stems from the notion that health is a direct contributor to human wellbeing and a type of human capital that broadens a person's potential (Bloom & Canning, 2003). Health has been shown to be a kind of human capital by both Akaakohol and Ijirshar (2018) and Grossman and Eihannah (1989), in equal measure. A healthy population, according to Schultz (1959), is the determining element in productivity. He also underlined the benefits of making investments in education and health. Health has been referred to as a capital productive asset and an engine of economic growth by Barro (1991), Adeyemi and Ogunsola (2016), and others. A healthy person is more effective at digesting information, which increases productivity levels. In a similar spirit, Ogujiuba (2013) claimed that without sufficient human capital development, no country can see significant economic growth.

Therefore, the development of human capital has become crucial in determining the rate of economic growth of a country's economy. Despite the significance of educational institutions and the relevance of human capital development in general, Nigeria only devotes a small percentage of its financial resources to health and education, frequently falling short of the UN and World Health Organization (WHO) standards for both. Between 1986 and 1990, Nigeria's education spending as a percentage of GDP averaged 5.64 percent, whereas it was 5.84 percent from 2005 to 2008. Records also reveal that the federal government spent an average of 49.69 billion in 1981 and 85.92 billion in 2015 on health and education, respectively (CBN, 2015). In general, education spending performance falls far short of the United Nations' required 26 percent of the national budget (CBN, 2015). Furthermore, it is clear from the repeated mentions of the WHO proposal that nations spend 5% of their GDP on health, a recommendation that was never formally accepted and has scant scientific support (Savedoff, 2003).

On the other hand, Nigeria's unchecked population growth has made human capital development there an unsolvable issue (Allege & Ogujiuba, 2005; Umoru & Odjgba, 2013). Due to the ongoing pressure for higher human resource development costs, there is now a huge gap in the cost of training that the government must close. Even though successive governments have cut back on resources intended to boost economic growth, little has changed because Nigeria's economic growth position is still dire. The paradox with this belief is that, despite massive investments in education, there is little solid evidence of education's positive effects on growth in Nigeria. Instead, the spread of education has exacerbated social inequality and fostered undesirable social changes like cultism, rent-seeking, sexual harassment, sorting, result racketeering, industrial disputes, brain drain, and other social vices in the country's educational system and society as a whole (Uduh & Beredict, 2017). Some of the methodological techniques used in the works under examination were insufficient for addressing the problems surrounding the connection between Nigeria's economic growth and the development of its human capital. For instance, when public spending on health and education is not truly exogenous in an economic growth model, the use of the ordinary least square technique or the Auto-Regressive Distributed Lag (ARDL) approach, and/or the use of Johansen co-integration, was egregious misuses of the proper technique (s). Therefore, it is essential to produce a high-quality study on the connection between economic growth and human capital development in Nigeria. This is the driving force underlying the current investigation.

## **Literature Review**

### *Human Capital Development*

The process of gaining and growing the pool of skilled workers with the training and experience necessary for the nation's economic progress is known as human capital development (Harbison, 1973). In Nigeria, the education and healthcare sectors are where most human capital is created. The government invests public funds in the education sector of the economy by paying for textbooks, instructional supplies, and other components of the development of human capital. Thus, time spent on education by the individual and government spending on education makes up the input in the education sector. Intrinsic sequences of non-overlapping generations of people fill the economy. As a result, the different types of human capital available vary in how they are developed and in the rewards that people might derive from them (Odo, Eze & Onyeisi, 2016). Individual talent and educational time are the major inputs in developing human capital. From the perspective of the individual, the amount of time is constrained by the anticipated lifespan, which is taken as a given by the person. Additionally, increased educational opportunities boost economic and national production. Human capital is defined by economists as the knowledge, health, and other qualities of people that, if increased, might raise productivity (Todaro & Smith, 2003). Human capital formation (development) refers to the process of acquiring and growing the number of people who have the skills, education, and experience that are essential for economic for economic growth and development of a country. Human capital refers to the abilities and skills of a country's human resources (Okojie, 1995). Human capital is directly helpful in the industrial process, according to Becker (1964). It boosts a worker's productivity across the board, albeit it may vary depending on the task, the organization, and the environment. Gardener believed that human capital was one-

dimensional because there are numerous dimensions or kinds of skills, according to Acemoglu (2013). While Schultz (1959) and Nelson and Phelps (1966) assume that human capital stock determines the ability to assimilate technologies and that human capital affects speed of technological catch-up and diffusion of knowledge, a straightforward version of this approach would emphasize mental and physical abilities as distinct skills. Human capital, according to Bowles and Gintis (1993), is the ability to work in groups, follow instructions, and generally adjust to life in a capitalist/hierarchical society. They assert that the primary purpose of education is to instill in students the proper worldview and outlook on life. This explains why investing in education is important for the growth of human capital. Spence also stated that observable indicators of human capital function more as a signal of aptitude than as traits that are individually beneficial to the production process. Because it boosts businesses' revenues, it follows that human capital will be valued in the market (Ogunleye, Owolabi, Sanyaolu & Lawal, 2017).

On the other hand, human capital development, which is synonymous with human capital formation, human resource development, and investment in human capital, refers to the process of acquiring and growing the population of people who have the knowledge, abilities, and experience necessary for a nation's economic and political development (Wilson, 2017). The origins of disparities in human capital are innate ability, education, teaching quality, non-schooling investments, training, and effects prior to the labor market. The primary subjects of this study are government spending on health care and other non-educational initiatives like training. The development of human capital in Nigeria began with the Eric Ashby Commission in 1959. It served as the cornerstone for the growth of higher education in Nigeria (Oluwatobi & Ogunrinola, 2011).

### *Economic Growth*

Economic growth has fallen victim to definitional pluralism and is sometimes mistaken for economic development. Economic growth is a term that is hard to define, and it is often believed that this is because there are so many different schools of thought in the social sciences and elsewhere that attribute different meanings to it. It could be seen as, for example, economic development (Raymond & Ekponaanuadum, 2021). To achieve that, both the overall and per-person output of goods and services must increase each year (Wilson, 2017). In other words, a nation would be considered developing if it could consistently raise its Gross National Product at a rate of between 5 and 7 percent year. According to Guru (2016), there are two methods to describe economic growth. Economic growth can be characterized in one sense as consistent annual gains in the real national income of an economy over an extended period of time. In other words, economic growth is the upward trend in the net national product when prices remain constant. Some economists have critiqued this description as being insufficient and unsatisfactory. They contend that even while the overall national income may be rising, the average level of living may be declining. When the population is growing more quickly than the total national income, this can occur. Therefore, defining economic growth in terms of per capita income is the second and preferable method. According to Guru's second perspective (2016), economic growth is the long-term annual rise in a country's real per capita income. Economic growth, according to Amadeo (2016), is measured by how much more the economy produces than it did previously, and if the economy is creating more, it motivates enterprises to work harder. The money can be used by businesses to grow and hire more

staff. According to Daly, Czech, Blackwelder, Magnus-Johnston, and Zencey, the phrase "economic growth" has two separate meanings (2010). On rare occasions, it might be connected to the growth of our economy (the physical subsystem of our world made up of the stocks of population and wealth; and the flows of production and consumption). The phrase also has a second, marginally distinct meaning that describes economically healthy expansion that makes a profit when advantages outweigh disadvantages. According to Kessier (2012), economic growth happens when a society is able to generate more commodities and services as a result of increased productivity. Therefore, economic growth can be defined as the sustained annual rise or development in a nation's real per capita income (real GDP per capita or production per person). The yearly real GDP, which is the monetary value of all finished products and services at market prices, and 2010 as the base year are used to compute this. Investment, human capital, innovation and R&D activities, trade openness, foreign direct investment (FDI), institutional framework, political concerns, and social-cultural aspects are a few of the elements that affect economic growth.

### **Theoretical Framework**

The human capital idea is the foundation of this study. The foundation for this idea was created by Schultz (1961), which was further developed by Nobel laureate in economics Becker in 1964 in his work on the economics of employer-provided training. According to the hypothesis, workers who receive education or training will be more productive and earn more money because of their increased knowledge and skill level. Becker (1967) divided human capital into two categories specific and general for which a clear division was drawn in order to emphasize the theory's central tenet. When employees learn skills explicitly related to their companies, such how to operate proprietary software, they develop specific human capital. Since this training is not transportable, businesses are eager to pay for it. The application of general human capital, on the other hand, focuses on the knowledge gained via education and training, which may be applied to all areas of productive engagement (writing and reading abilities fall under this category) (Adawo, 2011). Companies are frequently hesitant to pursue this since employees might leave for the company that offers the best pay. According to Becker's (1967) line of reasoning, human capital is comparable to more conventional production variables like real estate, machinery, and equipment. As a result, money can be used to invest in the development of human capital through education, training, and the provision of high-quality healthcare, and the level of overall production, like the tangible investment in capital, changes in part with the rate of return on the capital. This makes human capital an element of production for which ongoing investment leads to higher levels of output. For the purposes of this study, the idea best captures how human capital development contributes to Nigeria's economic growth.

### **Empirical Review**

Johnson (2011) looked at the relationship between economic growth and human capital development in Nigeria and said that human capital is a key element in transforming all resources for the benefit of humanity. In order to analyze the relationship between GDP as a proxy for economic growth, total government spending on health and education, and the

enrolment pattern of tertiary, secondary, and primary schools as a proxy for human capital, the study used a conceptual analytical framework that employs the theoretical and ordinary least square (OLS). The concluded that there is a strong positive relationship between the development of human capital and economic growth and advised stakeholders to devise more practical methods of developing human capabilities because they are viewed as a key tool for economic growth in Nigeria. They also suggested that appropriate institutional frameworks be put in place to examine the manpower needs of the various sectors and implement policies that will promote the country's overall growth. The contribution of various metrics of human capital development to economic growth in Nigeria was assessed by Jaiyeoba (2015). It employed the growth account paradigm and used data from Nigeria, which defines GDP growth as a function of labor and capital. In the model, there was also a component for policy changes. Based on the estimated regression and a descriptive statistical analysis of trends in government commitment to human capital development, it was discovered that, despite health receiving less commitment than education, both the education and health components of human capital development are essential for Nigerian economic growth.

According to Mba, Mba, Ogbuabor, and Ikpegbu (2013), the development of human capital is important for the expansion of the Nigerian economy. The Ordinary Least Square (OLS) approach was employed in the investigation. The study also employed the GDP as a stand-in for economic growth, as well as the per capita real gross domestic product, the enrollment in primary schools, public spending on health and education, life expectancy, and the stock of physical capital as a stand-in for human capital. According to research, economic growth and the development of human capital are strongly positively correlated. The study thus suggested revisiting the labor requirements of the various economic sectors, putting in place practical policies to promote overall economic growth, and making effective and efficient use of public education and health spending so that the nation would have high-quality healthcare and educational systems. Oluwatoyin (2013) investigated Nigeria's economic development and human capital investment. According to the study, which employed Augmented Dickey Fuller (ADF) tests, there is a positive correlation between government spending on education and economic growth, but a negative correlation between spending on health care and economic growth. The report consequently advised the government to boost not only the amount spent on the health and education sectors, but also the share of its overall spending that is given to these sectors.

Using time series data from 1982 to 2011, Jaiyeoba (2015) investigated the connection between human capital investment and economic growth in Nigeria. Trend analysis, Johansen co-integration, and the ordinary least squares method were all used in the study. However, empirical results suggest a long-term connection between government spending on health, education, and economic expansion. The variables gross fixed capital creation, secondary and tertiary enrollment rates, and health and education spending all show the anticipated positive trends and are statistically significant (except government expenditure on education and primary enrolment rate). The results of this study have significant consequences for health and education policies, which are hotly contested throughout the nation. Therefore, this study suggests that the government implement policies focused on significant investment in health and education in order to speed up growth and free Nigerians from the cycle of poverty.



Using time series data ranging from 1980 to 2013, Adeyemi and Ogunsola (2016) investigated the effect of human capital development on economic growth in Nigeria. To determine the link between the variables included in the investigation, ARDL Co-integration analysis was performed in the study. The research discovered that the variables had long-run co-integration. The study's results also showed a long-term positive association between secondary school enrollment, public education spending, life expectancy rate, gross capital formation, and economic growth; however this relationship was statistically insignificant. A negative long-term association between enrollment in primary and secondary schools, public health spending, and economic growth was also demonstrated by the results. The study so advised that the government implement the necessary education and training policies that would provide high-quality primary and tertiary education, and that it should also allocate more resources to the health sector to improve human capital development.

The impact of human capital on economic growth in Nigeria is examined by Bachama, Hassan, and Ibrahim (2021) using time series data spanning the years 1970–2019. Their research demonstrated a positive and significant relationship between economic growth and spending on health and education, both in the short- and long-term. However, it was shown that labor had a major negative impact on economic growth. They advise the Nigerian government to concentrate on enhancing the health and education sectors. Meaning that a significant portion of government spending should go toward the health and education sectors, and that more job possibilities should be created (via skill development/vocational training) in order to lower the unemployment rate in the nation. A conclusion that can be drawn from the aforementioned empirical works under review is that some of the methodological approaches used in the works were utterly insufficient for addressing the problems related to the relationship between the development of human capital and economic growth in Nigeria. In other words, using the ordinary least square technique or the Auto-Regressive Distributed Lag (ARDL) approach in situations where public spending on health and education is not truly exogenous to an economic growth model, or using the Johansen co-integration test in combination with the ordinary least square technique, was a grave misuse of the correct methodology (s). This is due to the fact that employing ordinary least squares to estimate an equation system frequently results in simultaneous equation bias. Therefore, the need for a suitable method to investigate the connection between the increase of human capital and Nigerian economic growth is an empirical verification activity whose necessity cannot be contested.

## **Research Methods**

To better understand the effect of human capital development on economic growth in Nigeria, this study uses a qualitative research design. The development of human capital and economic expansion are examined using descriptive analysis and observation approaches. The claims made in this theoretical study were supported by secondary data from books, journal articles, and other publications. To lower the chance of mistake and increase the study's validity and reliability, many secondary sources were used.

## **Conclusion**

Numerous scholars have examined the link between human capital and economic growth in the field of economics, with varying degrees of success. In an effort to examine how human capital affects economic growth, this paper draws the conclusion that, there is a clear and obvious link between the two in Nigeria and that the development of human capital has had a positive and significant impact on economic growth of country. The researcher suggests the following actions to encourage the building of human capital and achieve long-term growth:

The Nigerian government should continue to enhance its investment in education and health in order to achieve economic growth and generally the sustainable goals by 2030. This is a surefire strategy to advance the nation's growth of human capital. This would then have an impact on the nation's economic development.

To increase their involvement in providing human capital services to the general public, businesses should be urged to invest more in health and education. Therefore, healthcare is a unique good. This is founded on the idea that without involvement from the private sector, government spending on the health sector is useless in treating health issues. The study recommended an improvement in welfare programs for health care workers in order to stop the mass exodus of doctors and other health professionals from the country's shores and raise the standard of living for Nigerians in light of the study's finding that health spending had little impact on the country's misery index.

The government should launch major initiatives that create job possibilities for Nigerian graduates. This is due to the fact that many young people today participate in various social vices like prostitution, armed robbery, and kidnapping because they are jobless.

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## IMPORTANCE OF SUSTAINABLE PROCUREMENT IN NIGERIAN PUBLIC INSTITUTIONS

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**Abstract:** *Given the potential benefit it offers in preserving the environment and other aspects of human life and development, sustainable procurement has recently attracted a great deal of interest worldwide. This seems to be used more frequently in private businesses than in organizations operating in the public sector. The study aimed to advance knowledge of sustainable procurement and how Nigerian public sector organizations can use it to promote growth and service delivery. The study discussed the value of sustainability and the difficulties organizations encounter when putting initiatives into practice. Today in Nigeria, most public institutions lacked clear policy guidelines for embracing and implementing the sustainability pillars. The top management's commitment to ensuring that sustainability is implemented in public institutions was also lacking. In order to promote implementation and awareness throughout the organization, especially among procurement professionals, the study advises Nigerian public institutions, among other things, to make sure that thorough skills development and training in sustainable procurement is undertaken.*

**Keywords:** *Sustainable procurement, public institutions, public procurement, service delivery, sustainability*

### Introduction

Sustainable procurement, which has recently attracted a lot of interest, is a process used by organizations to satisfy their needs for goods, services, works, and utilities in a way that maximizes value for money over the course of its entire life cycle, benefiting not only the organization but also society, the economy, and the environment. Studies on the variables influencing the adoption of sustainability initiatives within an organization have been conducted. Most of these studies on sustainability were carried out by businesses in the private sector. Today's public sector places a high priority on sustainability (Bansal & Roth, 2000). There are potential advantages of public procurement in terms of sustainability, given the size and influence of the public sector in terms of its percentage expenditure on the Gross Domestic Product of a country. Few studies have examined how the public sector contributes to the creation of sustainability initiatives (Elkington, 2004; Adebayo, 2015; Zambika, 2022). Managers in public institutions frequently deal with legal and bureaucratic obstacles. Other internal and external stakeholders can affect how successfully sustainability initiatives are implemented.

The purpose of the study was to determine the significance of sustainable procurement in Nigerian public institutions and what difficulties organizations encountered in putting sustainable procurement initiatives into practice in the Nigerian public sector. The study was important because it sought to suggest ways Nigerian public institutions can incorporate sustainability into their daily operations in light of the growing global demand for organizations to support broader policy objectives like resilient, environmental stewardship, inclusive economic development, and social protection. This research will

contribute to the body of knowledge already available on sustainability and how businesses integrate sustainability into their practices. The study will also look for actors and variables that might affect sustainable procurement in Nigerian government agencies.

## **Review of Related Literature**

### *Public Procurement*

One of the main economic activities of the government is public procurement, which is the acquisition of goods and services by the government or a public sector organization (Gelderman, Semeijn & Vluggen, 2017). Most economies have sizable public procurement sectors. Public procurement is a very important component of any nation's development plans, accounting for roughly 20 to 25 percent of Nigeria's GDP.

### *Sustainable Procurement*

International policies now place a lot of emphasis on sustainable procurement and are very interested in it. Sustainable Procurement is a process by which organizations meet their needs for goods, services, works, and utilities in a way that achieves value for money over the course of their entire life, generating benefits for the organization as well as for society, the economy, and the environment (Meehan & Bryde, 2011). Sustainable procurement ensures that social, environmental, and economic factors are sought in procurement decisions, whereas the earlier emphasis was on environmental procurement.

Early research in this field focused primarily on minimizing supply chain operations' impact on the environment while highlighting the environmental threats and opportunities from a strategic perspective. Studies on sustainable procurement issues have a long history in private sector companies and were first primarily focused on managing environmental concerns in supply chains, or "green supply chain management" (Bowen, Cousins, Lamming & Farukt, 2001). While other studies have concentrated on social issues, the majority of current research on sustainable procurement centers on environmental issues. In more recent studies, it has become clear that it is important to examine sustainability in supply chain activities holistically, taking into account both social and environmental concerns. In the private sector, sustainable procurement has a long history, with a focus on supply chain environmental management issues in particular (Hoejmose & Adrien-Kirby, 2012).

### *Sustainable Public Procurement*

Incorporating consideration for broader social and environmental impacts into government or public sector organizations' procurement practices is known as sustainable public procurement. Studies have concentrated specifically on sustainable procurement policies and the creation of strategies to support policy implementation. It was discovered that green procurement has been promoted through legislation, information provision, and the removal of obstacles (Adebayo, 2015). In the private sector, research on various aspects of sustainable procurement has a long history, with a focus on the management of environmental issues in supply chains (Zambika, 2022).

### *Dimensions of Sustainable Public Procurement*

The three pillars of sustainable procurement are as follows. They are known as the environmental, social, and economic pillars (Brammer & Walker, 2011). There are sustainable issues that need to be incorporated into an organization's operations and purchasing decisions under each sustainability pillar:

#### *Economic*

Economic sustainability ensures that the community from which the product was manufactured as well as the community in which it was sold both benefited economically from the sale of the product. Economic in this context means that the product or service was procured through effective procurement procedures that took into account usage, maintenance, and disposal costs once the product had reached the end of its useful life (Brammer & Walker, 2011; Walker, 2015).

#### *Environment*

A service or product that is purchased has an effect on the environment throughout its life cycle. Examples could include the gathering of raw materials, the manufacturing process, use of the product, and finally disposal. The good or service you purchase must have fewer detrimental effects on the environment during its production, use, and disposal (Brammer & Walker, 2011; Walker, 2015).

#### *Social*

Due to the social impacts of procurement activities, public procurement can be used to promote and advance social advancement in the nation where the organization operates. This can be accomplished by ensuring that employees of contractors hired by the organization have suitable working conditions, installing or constructing offices with access for the disabled, and fighting against child labor or forced labor. Another illustration is buying products that were produced ethically and fairly traded to guarantee sustainability from the sources of supply to the areas of consumption (Brammer & Walker, 2011; Walker, 2015). Berns (2009) developed the idea of the "triple bottom line," which clarifies that sustainability is the interrelationship of economic, environmental, and social dimensions. This idea was built upon these fundamental sustainability pillars. The traditional emphasis on quality management systems has given way to inquiries about ethical and sustainable purchasing practices from stakeholders. It is important to make sure that procurement professionals are acting sustainably because they are responsible for keeping track of expenditures for their organizations.

### **Benefits of Sustainable Public Procurement**

It is obvious that how and what the governments buy affect their ability to provide sustainable development for their citizens as well as how well-regarded they are with their development partners. When goods are purchased from unethical businesses for instance, businesses that exploit their employees or harm the environment through their operations those businesses are compelled to continue using such unsustainable business practices (Walker, 2015). Therefore, organizations ought to help businesses that make environmentally friendly goods. Sustainable public procurement seeks to have a lasting

positive impact on issues relating to the economy, society, and the environment by supporting. Among other things, one should seek to: 1. get value for money; 2. ensure sustainable economic growth; 3. reduce emissions of harmful substances and waste generation; 4. ensure improved ethical behavior of suppliers or contractors; 5. improve working conditions health and safety, labor standards; and 6. ensure a fair and better society (Bansal & Roth, 2000).

The procurement staff must possess the necessary qualifications to aid in the implementation of sustainability in the organization because they are the primary actors in sustainable procurement in public institutions. Professionals in procurement are crucial in connecting external knowledge to an organization's internal needs. Therefore, by suggesting sustainable solutions to different users, procurement professionals can have an impact on sustainability initiatives within the company (Elkington, 2004). Organizational awareness and the sustainability knowledge of procurement professionals are crucial components in the support of sustainability initiatives (Hoejmose & Adrien-Kirby, 2012). It can be difficult to adopt sustainable procurement if people don't know what it is or what advantages they can offer an organization. When sustainability is explicitly stated in the procurement act, however, top management support will enable businesses to implement it correctly.

### **Conclusion and Recommendations**

Governments in developing nations have looked for ways to address the issue of sustainable development by using their influence as the major consumers of goods and services, so sustainable procurement is essential. An overview of the significance of sustainability in public procurement has been given in this study. Given that they have the most influence, training procurement professionals in the implementation of sustainable procurement is essential. Therefore, the study suggests the following:

Nigerian public sector organizations should create clear sustainability policies that would direct personnel involved in procurement as well as the entire organization. To accomplish this, sustainability objectives and statements can be incorporated into the overall strategic and operational plans. The departments will find it simple to adopt sustainability in their operations once clear sustainable policies are stated, and implementation would be successful given that top management support is present.

To better understand how suppliers operate, Nigerian public sector organizations should pay visits to their facilities. Regular, unannounced visits will guarantee that the organization's suppliers stay in compliance with labor laws and other rules. This will make it easier to identify vendors who might be engaging in child labor, forced labor, or unsafe working conditions. Make sure the Whole Life Costing cycle is followed when buying any materials or equipment. This will guarantee that the cost of the equipment is accurately calculated at each stage, including purchase, maintenance, and disposal.

The study also recommends that the organization needs to invest heavily in sustainable procurement training. The organizations should spend money on sustainability training for their procurement staff and other stakeholders. When personnel assigned to oversee procurement receive adequate training in sustainable procurement, the organization's profile of sustainability will be raised.



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## CAN THE CENTRE HOLD? AN EXPLORATION OF NIGERIA'S FEDERALISM

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**Abstract:** *There is increasing concern that undermines the significance and robust value of the federal system of government in the Nigeria context. It is notable and universally known that federalism is the prototype of national development and economic growth for some countries like the United States of America. Despite evidence of positive outcomes in federal states, the Nigeria case is bedeviled with strives and unhealthy rivalries. There is an increasing upsurge of ethnic distrust, which is hampering the unity of Nigeria as a country—notably the anxiety of the south-east as well as the south-south peoples. The problem has been exacerbated under the government of President Muhammadu Buhari. Against this backdrop, this study appraised the pattern of agitation in the Nigerian federal system. The study adopted a mixed-methods approach that comprised qualitative and quantitative research. The sample size was 1320, and this was applied to the quantitative survey, while the qualitative survey was conducted among small size groups. Data were collated and analysed quantitatively and qualitatively. The former applied structured questionnaires, descriptive statistics, and inferential statistics. The latter applied unstructured interviewing and thematic analysis. More than three-quarters of the 735 participants disagreed that the federal government enshrined national unity in the structure of federal appointments. The chi square estimate,  $\chi^2 89.8$ ;  $p < 0.01$ , was significant in measuring the pattern of federal appointments and ethnic agitations. Qualitative data reveals that Indigenous peoples of southern Nigeria identified a skewed pattern of federal appointments in key military hierarchy and mainstream oil corporations that excluded their ethnic members. This is the major cause of agitation. This study suggests renegotiating the oil derivation dividend and reorganizing appointments in a significant oil corporation to support the host communities' consent to the development of natural resources.*

**Keywords:** *Renegotiation of federalism, resource control, ethnic groups, federal character*

### Introduction

Nigeria is a federal state that operates under a republican constitution that defines the role of the state. The history of Nigeria is synonymous with a federal government. This draws from the fact that there is a unique pattern of state function and units therein. The federal government of Nigeria has a long history of statehood and governance in the post-independence period (Onanuga, 2014). The post-1966 military coup was a precursor to the establishment of federalism, which began in 1979. Since this period, Nigeria has witnessed incessant ethnic strife. Notably, federalism imposes the powers of a sovereign federal state

on federating units. The federal government has absolute power, and it is granted to the president or head of state to wield absolute power (Nweke, 2019). The 1979 constitution and its 1999 revised edition, as amended, provide for a presidential system in the federal state (Fadakinte, 2013). Historically, the agitation since 1979 has been vehemently centered around resource control. This is so because the 1999 Constitution provided sections for the power of the federal government and federating states in the exclusive list, concurrent list, and residual list (The 1999 Constitution Document, 2015). The constitution clearly states that the federal government shall legislate on an exclusive list and a concurrent list. Whereas the provision of an exclusive list takes away resource control from the states or regions where it is found, the federal government is empowered by the constitution through its organs to determine what is retained as royalties or derivations by regions that host the resources. This means the federating units are reduced to powerless control over the resources that were earlier used to develop regions that host mineral resources under pre-federalism. During regional government, the Western, Eastern, and Northern regions developed at peace with regional resources and only paid taxes to the central government. Nigeria was not engulfed in the orgy of devastating outlooks before the 1966 military coup. The absolute power of the federal state in Nigeria's multiethnic society has been the recipe for current disparaging tensions, agitations, and severe ethnic distrust (Etekpe, 2007). There have been numerous freedom fighter organisations, especially dominant in southern Nigeria.

The agitations of freedom fighters are conveniently located around a sense of inequality and a powerless outlook on resource control, which hamper regional development and create hunger, unemployment, poor policing, and insecure security, which question collective existence (Falana, 2018). It is argued by some scholars that federalism hampers the pace of growth for federating units, breeds overdependence on the center, creates lazy states, and fosters unhealthy rivalries and ethnic suspicions (Ake, 2001; Akinboye, 2001). Further, the groundbreaking contradiction is that ethnic unrest is fostered by federalism. Indeed, it may be argued that federalism has led to the creation of ethnic militias and organised pressure groups that compromise the safety and existence of the federal state (Osaghae, 2020). There is an uprising of militia groups on the one hand and the formation of an elite group on the other. Federalism creates patterns of agitation that may metamorphose and snowball into larger-scale conflict and civil unrest in a multiethnic state (Moshood, 2015). Nigeria has repeatedly witnessed this unrest and uprising, which have become synonymous with the government of President Muhammadu Buhari. There is public disenchantment and disillusionment against the Buhari government by peoples of the east and south due to state nepotism and discrimination that exclude ethnic people in the federal structure of appointment, project development, and military bureaucracy (Falana, 2018). Unfortunately, the situation in the south-east and south-south has deteriorated due to expressions of anger against the federal government. Yet, this region contributed significantly to Nigeria's mainstay economy. Against this backdrop, this paper is drafted to:

Analyze the geopolitical patterns of agitation in Nigeria among the southern regions of the country.

## **Literature Review**

It is curious to know that federalism is a collective agreement in a social contract in which federating units have agreed to give up their self-independent rule (Yagboyaju & Akinola, 2019). Notably, Nigerian federalism occurs in a multiethnic landscape, which brings together competitive groups. There is a conscious agreement that lays out compensation by amount of contribution to the national sovereign purse and redistribution of benefits. This accounts for federal allocation and the fiscal commission in Nigeria saddled with such responsibilities (Ogunyemi, 2014). It follows that suspicions around unbalanced and skewed agreements create fertile breeding grounds for agitation in the federal state.

### *Modeling Agreement*

Fundamentally, a key difference between social contract theories is whether the parties have different or similar justifications. Everyone rationalizes in accordance with Rawls' (1996) contract, which reduces the collective choice issue to a single individual's decision. The choice of any one person affects everyone else indirectly. In these kinds of social contracts, the description of the parties—their motivations and the circumstances surrounding their decisions—does all the heavy lifting. After we have completely outlined the justification of one party, the contract has been defined. The opposing hypothesis holds that the parties still disagree in their assessments of potential social contracts even after identifying them (along with their values, information, and rationality). This viewpoint holds that a contract can only provide a predetermined outcome if there is a mechanism to balance out the various rankings of each member and get to a consensus (D'Agostino et al., 2003). This paper draws on two key models of agreement mechanisms: consent and bargaining.

### *Consent*

Hobbes, Locke, and Rousseau's conventional social contract theories profoundly bank on the notion of "consent". Only the "consent of free men," in Locke's view, could qualify someone to serve in authority (Encyclopedia of Philosophy, 2017). This group of thinkers and subsequent discourses contend that the concept of "consent" includes the ability of an individual to hold themselves normatively. At the age of consent, individuals are allowed to choose any type of legitimately enforceable transaction. The initial modern contract theorists asserted that individuals had fundamental normative powers over themselves and self-ownership prior to joining the social contract. The theorists also opined that individuals are politically obligated to place consent at the epicenter of their contracts. A social contract resulted in obligation if the parties had the ability to work in unity and use normative authority. Covenants bind, as Hobbes contended; for this reason, they are "artificial chains" (Encyclopedia of Philosophy, 2017). These factors, particularly the latter, have been criticized by modern social contract ideas. According to Buchanan (2000), the main advancement in recent social contract theory has been the ability to differentiate between the issue of what creates political obligation—which is the main focus of the consent tradition in social contract thought—and the issue of what constitutional orders or social institutions are mutually beneficial and stable over time. Individual morality governs how one should behave in relation to the law and social norms, whereas public or societal morality governs the creation and justification of political and social institutions (d'Agostino, Gaus & Thrasher, 1996).

In fact, Buchanan believed that the reorientation of political philosophy toward public or social morality rather than the obligation of individuals has been a key component of more contemporary contractual thought. Although some modern social contract theorists still speak in terms of consent, agreement is the central concept of this school of thought. Social contract theorists, however, come in a variety. Social contract theories are based on the commonsense concept of agreement (Freeman, 2007). It is possible to support or concur with a principle without being obligated to follow it in any way. Additionally, according to Freeman, when one is in agreement, it shows individuals' justifications. An agreement can also be seen as a test or heuristic. In the context of community political or social relationships, central to the purpose of a consensual collective bargaining agreement is to demonstrate our justifications for action (Freeman, 2006). Agreement serves as a reason-revealing act rather than a performative that imposes duty (Freeman, 2006). If people are sensible, their agreements will reflect the values they hold dear.

Here, Rawls' (1996) difference between "you and me," "the parties to the deliberative model," and "everyone in a well-ordered society" is crucial. In the two ways that are considered, the parties' agreement in the deliberative model is unquestionably hypothetical: it is an agreement between hypothetical parties. Yet, the purpose of the deliberative model is to assist "you and me" in solving our justificatory dilemma, which is to determine what kind of social structures are described as free agents with no dominion over one another (Rawls, 1996). Actually, Nigeria's union serves as a model for hypothetical justification. It is assumed that there will be one Nigeria made up of multiethnic communities that coexist in equality and harmony. The justifiable premise could be seen as justice for all, leading to the parties to consent. So, the participants' discussions and the circumstances in which they deliberate serve as models for our genuine beliefs in justification and justice.

### *Bargaining*

Perhaps it is not surprising that the revival of modern contract theory coincided with the application of game-theoretic techniques, particularly bargaining theory, to philosophical issues. The rigorous approach of bargaining theory, established by Nash (1950) and Harsanyi (1997), simulates how reasonable people might come to an agreement to split a surplus or product. The bargaining model of agreement, in its most basic version, provides a group of people with unique utility responsibilities that are comparable to one another without directly necessitating interpersonal utility comparisons. If the parties concerned can come to an agreement on how to divide the stated product or goods, they shall get that division. Yet, if they cannot agree, they will instead receive the results of their disagreement, as is clearly the case in Nigeria. They might have brought this or some other specific amount to the table. One illustration is a straightforward demand game in which two players must specify how much of a given pot of money they desire. Each will receive what they typed down if the sum of the two "bids" is equal to or less than the pot; otherwise, neither will receive anything. Using negotiating tactics, such as those suggested by Braithwaite, is one option for parties to settle their disputes. Rawls (1958) acknowledged that "justice is fairness." Since he believed that this form of solution relied on threat advantage, Rawls himself rejected bargaining solutions to the social compact (Rawls 1999). Yet, Gauthier (1986) notably embraced this strategy, constructing *Morals by Agreement on the Kalai and Smorodinsky's (1975) compromise strategy* (Gaus, 2011).

Recently, Binmore (2005) and Muldoon (2017) both made advances in the social contract theory, which is based on the Nash bargaining solution, while Moehler (2014) uses a "stabilized" Nash bargaining solution. Although Gauthier (1986) changed his method to negotiation, it is still more similar to his initial solution than it is to Nash's solution. A disadvantage of all such techniques is the diversity of negotiating solutions, which can greatly differ, in conjunction with Rawls' (1996) opinion of threat advantage. Although the Nash approach is currently the most popular, its effects can be unexpected. Additionally, others contend that because bargaining solutions are inherently uncertain, the only way to make them certain is to make implausible or contentious assumptions (Southwood, 2010; Southwood, 2013). Games' equilibrium selection faces similar issues (Vanderschraaf, 2005; Harsanyi & Reinhard, 1988). Recent advances in the social contract and bargaining theory frequently use dynamic (Muldoon, 2017) or evolutionary approaches to stimulating negotiation (Skyrms, 2014).

Looking at how real people really bargain and come to agreements is a more empirically oriented approach that builds on the bargaining and game theory of Schelling (1960). The forerunners of experimental economics utilized lab tests to observe how participants responded to division problems (Smith, 2003). Unexpectedly, Smith (1982) indicates that significant and intriguing outcomes emanated from asymmetric bargaining games such as the ultimatum game. After the initial trials, numerous experimental works have been carried out on economic cooperative agreements and negotiating issues. The significance of social norms and traditions in deciding the outcome is a major theme in most of the most pertinent philosophical work (Bicchieri, 2016). Although relying on a bargaining solution could lead to social contract determinacy, doing so comes at the expense of shifting to an approach that should be based on the empirically contingent outcomes of socially and biologically evolution-oriented systems, or, in the case of axiomatic bargaining, relying on a contentious commensuration mechanism. Although it has been dormant for a while, the works of Alexander (2007), Thrasher (2014), Thoma (2015), and Muldoon (2017) are reviving the significance of bargaining in the social compact.

Therefore, the study sets out to demonstrate the consequences of the object of the "social contract," the "collective agreement," and its constituent parts (equilibrium, bargaining, aggregation, and consent) in the Nigerian state, particularly in light of recent calls for renegotiation from some contracting parties.

## **Methodology**

This paper is an empirical adventure undertaken by the researchers to investigate some of the factors associated with perceived tension among the peoples of southern Nigeria. The paper adopted a survey method using descriptive research and a cross-sectional design. The sample size was 1320 participants, who were discretely and purposefully selected. At the level of a quantitative survey, the target study population consisted of resident individuals who lived in some selected parts of the south-south and south-east Nigeria. In the south-east, the researchers purposefully identified Imo state, Abia state, and Anambra state, while in the south-south, Rivers state, Delta state, as well as Bayelsa state, were selected. These states were major hotspots of ethnic agitation and restructuring. At the level of a qualitative survey, groups such as IPOB/MASSOB, OHANESE INDIGBO, PANDEF, the House of Assembly, and the High Courts were identified for study. Similarly, the researchers

adopted purposive sampling and accidental sampling as sampling procedures. Using the purposive method, the researchers justified the inclusion of research objects, locations, and participants for the study. Accidental sampling was applied to select respondents for the study. These were individuals who were readily available and willing to consent to participate in the study. The research instruments for data collection consisted of a structured questionnaire and an unstructured interview. The former was applied to resident individuals, and the latter was applied among group discussants. A mixed-methods approach was employed. The method of data collection was quantitatively and qualitatively derived using statistical labeling and the text of the conversation. The data were analysed using quantitative and qualitative methods. The former applied descriptive and inferential statistics; the latter applied an ethnographic model using thematic analysis. Prior to data collection, the researchers obtained consent from participants and kept their identities anonymous.

**Results and Discussion**

*Nigeria State's Agitation Trend*

All of Nigeria's ethnic groups were expected to come together with the adoption of the Fourth Republic Constitution in 1999, which ushered in the current era of democratic rule. Inalienable rights for all people were acknowledged in Chapter 3 of the Constitution, regardless of racial superiority or inferiority. No part of the nation shall be barred from benefiting in the same proportion as other units, according to the same chapter of the constitution. The 1999 constitution's Section One expressly calls for the balanced development and acknowledgement of all ethnic groups. But the Nigeria of today exhibits dissatisfaction and mistrust. In light of this, Tables 1 and 1.2 in this subsection analyze the pattern of agitation that has persisted in the current makeup of the sovereign country.

**Table 1: Characterization of Agitation Pattern by Respondents**

Variables	South-East		South- South		Total	
	Freq= 642	Percent =100%	Freq= 678	Percent =100%	Fre=1320	Percent =100%
Which of these do you consider as major agitation of your geopolitical zones?						
Federal appointment	102	15.9	108	15.9	210	15.9
Federal project	13	2.0	13	1.9	26	2.0
Content of constitution	36	5.6	42	6.2	78	5.9
Marginalization	48	7.5	47	6.9	95	7.2
Resource control	443	69.0	455	67.1	911	69.0
Do you consider such agitation as collective struggle?						
Disagreed	36	5.6	42	6.2	78	5.9
Moderately agreed	210	32.7	217	32.0	427	32.3
Strongly agreed	396	61.7	419	61.8	815	61.8

Which of these is major limitation of constitution?						
Structure of constitution	232	36.1	253	37.3	485	36.7
Powers of the president	40	6.2	39	5.8	79	6.0
Resource control	285	44.4	289	42.6	574	43.5
Formulation of the constitution	85	13.2	97	14.3	182	13.8
Does presidential system deprive your geopolitical zone?						
Disagreed	65	10.1	67	9.9	132	10.0
Moderately agreed	139	21.7	148	21.8	287	21.7
Strongly agreed	438	68.2	463	68.3	901	68.3
Do you think Federal project(s) in your geopolitical zone is sustainable?						
Disagreed	379	59.0	392	57.8	771	58.4
Moderately agreed	153	23.8	162	23.9	315	23.9
Strongly agreed	110	17.1	124	18.3	234	17.7
Do you think federal projects & infrastructures in your geopolitical zone promote sense of belonging:						
Disagreed	381	59.3	410	60.5	791	59.9
Moderately agreed	197	30.7	200	29.5	397	30.1
Strongly agreed	64	10.0	68	10.0	132	10.0
What type of marginalization does your geopolitical zone experience in Nigeria?						
Political marginalization	82	12.8	89	13.1	171	13.0
Economic marginalization	92	14.3	103	15.2	195	14.8
Local government creation	18	2.8	21	3.1	39	3.0
Appointments Military hierarchies	450	70.1	465	68.6	915	69.2
Do you think such marginalization trigger conflict?						
Disagreed	239	37.2	257	37.9	496	37.5
Moderately agreed	165	25.7	175	25.8	340	25.8
Strongly agreed	238	37.1	246	36.3	484	36.7
Do consider that resources in your geopolitical zone can sustain growth?						
Disagreed	172	26.8	192	28.3	364	27.6
Moderately agreed	97	15.1	94	13.9	191	14.5
Strongly agreed	373	58.1	392	57.8	765	58.0

Source: Researchers' Field Survey, 2021

The table above shows results for the pattern of agitation expressed by participants in this study. Pattern measures factors or phenomena that endure over time and constitute



distinctive shapes in human behaviour. Over time, there has been agitation by people of eastern and southern Nigeria, drawing upon observed inequity in the distribution of national wealth. This study was curious because it explored explicit factors that contradicted the prevailing federalism in Nigeria. Respondents were asked to identify major agitations in the geopolitical regions. Against this backdrop, appointments at the federal level (15.0%), projects from the federal level (2.0%), constitutional content (5.9%), marginalisation (7.2%), and resource control (69.0%) were listed. However, the case for resources was magnified as being central to the agitation. In the case of the south-east, 69.0% opted for resource control and 67.1% in the south-south.

A further probe was conducted when respondents were asked whether or not the agitation was a collective struggle. This study sought to validate some literature that verified that southern and eastern ethnic groups were united in the struggle to restructure federalism (Ebizim & Onyemere, 2018). Results in the current study showed that 61.8% strongly agreed and 32.3% moderately agreed that agitation was a collective struggle and collective goal of the people. Explicitly, 61.7% and 61.8% strongly agreed in the south-east and south-south, respectively. Unfortunately, the posture of ethnic agitation in the geopolitical zone is gradually spilling over into ethnic hatred, distrust, and inert violence. Indeed, ethnics in the study area displayed jaundiced opinions and a lack of commitment to Nigerian federalism and found fault with the federal constitution. Here, 36.7% held that the structure of the Constitution is faulty; 6.0% faulted the powers of the president as empowered by the Constitution; 43.5% identified the placement of resource control that the Constitution hindered; and 13.8% faulted the formulation of the Constitution, which lacked a unified contribution. Some authors have faulted the Nigerian Constitution and tagged it a military Greek gift that hinders universal development (Etekpe, 2007). Resource control also appeared dominantly among participants in the south-east (44.4%) and south-south (42.6%).

The presidential system of government and the governance structure around it have become major concerns for political thinkers, professionals, and public affairs commentators in Nigeria (Thrasher, 2014a). It is not that this system is faulty, but the practice and configuration that subjugates elements within it is the red alert depleting the value (Etekpe, 2007). In this study, 68.3% strongly agreed that the red alert has remained a stifling disadvantage in the presidential system. Yet, 68.2% and 68.3% strongly agreed in the south-east and south-south, respectively. Participants shared the opinion that the 1999 Constitution as amended empowered the president beyond rationality of governance and sometimes exercise of power, which posed serious concern. Some have indicated that the Nigerian president is powerful and absolute, and this impedes uniform development or gains in a multi-ethnic society like Nigeria. Buttressing the point here, a discussant said: A major part of federal revenue comes from oil. The community that produced the oil suffered from major degradation. These communities are only offered 13% derivation, which is very meager. Before the war, revenue was shared according to derivation. The majority of revenue went to areas that contributed largely to the revenue. Now the federal government takes the lion's share. The communities that produced the oil and contributed largely to the revenue suffer degradation... Appointments to key and strategic positions are held by people from the north. The Igbo contribute to oil exploration.... But the zone is openly excluded... managers of Nigeria's oil company are from the north. The Board of

the NNPC is largely dominated by people from the north. The south-east is deprived and excluded. (IDIs/High Court Judge/South-East/2021)

In the preliminary, the text above was commonly observed among the discussants in the study. There is quick access to open meaning in the text. Geopolitical zones lacked the power to retain revenues from zones that produced from mineral resources found around them. The Constitution neither envisions nor arrogates this power. Rather, the power of the president in Nigeria is absolute and overarching. Unfortunately, there was growing disaffection against federal projects and federal infrastructure distributed in the geopolitical zones. In this case, 58.4% of the respondents held that federal projects were not sustainable, and 59.9% held that such existing projects in the zones were not sufficient to promote a sense of belonging. In the south-east, 59.0 percent expressed major concerns around federal projects, and 57.9 percent in the south-south faulted federal projects in the zone. The expression reflected a lack of even distribution, project abandonment, a lack of commitment to federal unity, and the distribution of resources, which reflected a contribution to national revenue.

In the submission of a discussant, the comment was:

The zone is championing resource control, equitable distribution of power, and true federating units. The tenet of the constitution should truly be implemented, which states that all federating units are equal. Like what we have today, a negation of the constitution, especially in federal appointments. Appointments by the federal government tilted obviously to a section of the country, the northern extraction. There won't be peace. Let the country separate. Let the zones be independent and go their way. (IDIs/High Court Judge/South South//20201)

Another interviewee offered a similar theme-related statement:

There is no trust between the north and east. The north is concerned that Igbo leadership of the country will lead to northern dominance. There is a fear of dominance. MASSOB and IPOB agitate for equity and the redistribution of infrastructure in the Nigerian state. (IDIs/High Court Judge/Southeast/2021)

There is an explicit appearance of disaffection and a continuous placement of feeling, which undermined federalism in Nigeria. This posture remained patterned in the geopolitical zones. In the light of the statement above, participants listed items that consisted of economic marginalisation (14.8%), political marginalisation (13.0%), the creation of local government (3.0%), as well as military hierarchies (69.2%) as forms of marginalisation suffered by the geopolitical zones. Indeed, discrimination in the appointment of military officers was reckoned as a major disservice to south-south and south-east people in the administration of President Buhari. Respondents in the survey felt that the composition of the military was not a true reflection of its multiethnic character or that this perhaps violated the spirit of its federal character (Osaghae, 2020). As a follow-up to probe further items of research, respondents were asked to show the implication for peaceful coexistence in Nigeria. Unfortunately, 37.5% attributed observed marginalisation as a prelude to conflict and ethnic distrust in Nigeria, and 25.8% moderately agreed. On average, half of the participants attributed marginalisation to conflict. In the case of the south-east, 37.2% attributed marginalisation to conflict, and 37.9% in the south-south expressed a similar opinion. The study further probed the role of control as a panacea for peace and growth in the geopolitical zone. Results showed that 58.0% agreed, connecting

resource control as a solution base. In a similar vein, 14.5% moderately agreed, and 27.6% canvassed for extension beyond resource control.

In the words of discussant:

The effect of oil exploration in the Niger-Delta is overwhelming. The construction of a one-kilometer road in the zone cost not less than one billion naira or more. But in other zones, the amount is much lower due to topography. Oil exploration has degraded the environment. We are championing resource control to develop our zone. The federal government is depriving us. We are suffering for it. We experience pollution, gas flaring, oil spillage, and environmental degradation. We are the people in the midst of the danger. They don't understand our pain. Resources should be distributed according to their source. Let people benefit fairly from their God-given resources. (IDIs/High Court Judge/South-East/2021)

The abundant fact above reflected the internal collective struggle in the geopolitical zones as a major area, which has become a monster threatening the commitment of ethnic peoples and lack of national unity. Discussing the theme of resource control, a discussant said:

A major part of federal revenue comes from oil. The community that produced the oil suffered from major degradation. These communities are only offered 13% derivation, which is very meager. Before the war, revenue was shared according to derivation. The majority of revenue went to areas that contributed largely to the revenue. Now the federal government takes the lion's share. The communities that produced the oil and contributed largely to the revenue suffer degradation... Appointments to key and strategic positions are held by people from the north. The Igbo contribute to oil exploration.... But the zone is openly excluded... managers of Nigeria's oil company are from the north. The Board of the NNPC is largely dominated by people from the north. The south-east is deprived and excluded. (IDIs/High Court Judge/South-East/2021)

Unfortunately, the resource control has remained indelible since the time of republican government and spilled over into the ongoing Fourth Republic. There is no respite in foresight, and the ethnic people of the southern zone remain committed to the course of restructuring current federalism.

**Table 2: Cross Tabulation of perception federal appointment and national unity**

Level of perception	I believe in the unity of Nigeria			Total
	Disagreed	Moderately agreed	Strongly agreed	
Poor	488	242	132	862
Fair	130	133	0	263
Good	117	39	39	195
Total	735	414	171	1320

In the table above, perception was rated as covering the current configuration of federal appointments on the one hand and believing in the unity of Nigeria on the other. Perception was rated poor (862), fair (263), and good (195). This was a reflection of existing agitation that faulted federalism in Nigeria due to its geopolitical nature and inequity in the distribution of resources. A reflection of this was the proportion of participants (735), which disagreed with proponents of national unity.

**Table 2.1: Chi Square**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	89.814 <sup>a</sup>	4	.000
Likelihood Ratio	119.077	4	.000
Linear-by-Linear Association	.135	1	.714
N of Valid Cases	1320		

The chi square test showed that perception and belief were related and showed similarity. This is because the chi square was significant at  $\chi^2$  89.8,  $p$ .000, which indicates that the perception held by participants in the survey predicted a pattern of belief in national unity. Therefore, perception is an independent variable that explains the belief system in the study.

**Table 2.2: Correlation Symmetric Measures**

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Interval Pearson's R	-.010	.029	-.367	.714 <sup>c</sup>
Ordinal by Ordinal Spearman Correlation	-.007	.028	-.237	.813 <sup>c</sup>
N of Valid Cases	1320			

Using the value for Pearson's moment correlation, a further test was conducted to update the results in the chi square. Correlation value was negative (-.010) and  $p$  value  $>.714$ . This implied that perception and belief, as shown in the correlation, differed in their tendency to alter one another. The linear relationship was negative, or inverse. As a result, perception held by participants was insufficient as a predictor of belief, whether poor, fair, or good. Looking further in the column of standard error, the range was .029, or 97.1 percent confidence interval. This offers leverage because intervening factors have predicted the association between perception and belief. Ultimately, perception shapes beliefs, but in the case of this study, perception did not independently predict beliefs. It follows that perceptions held by people in the geopolitical zones were shaped by other factors that influenced beliefs held. In the meantime, there was a dominant belief that federalism in Nigeria was a precursor to ethnic discrimination and depreciated the value of national unity.

### Conclusion and recommendations

There is a curious assertion to state that federalism is skewed when it is considered in the space of southern peoples, as evidently showed. There is an asymmetric pattern in the structure of benefits accorded, and this formed the basis for disgruntled voices in the space of Nigerian federalism. Originally, federalism offered a choice of consent and bargaining in the agreement to give up self-governing regional ethnic groups in the south and north of Nigeria. The consent is laid down to accept the federal state and belong to one Nigeria. This consent is reinforced by the recognition of multilateral interests. The bargaining power also derives from the agreement to redistribute federal resources according to contribution

and the entrenchment of the principles and ethics of the contract. This offers the foundation for a sustainable federal state, which guarantees continuity. Government that shortchanges such agreement becomes tainted with suspicion, especially around multiethnic groups. Unfortunately, the trend that beclouds the government of President Muhammadu Buhari is second to none in shaping public opinion and ethnic uprisings in the southern and eastern regions of Nigeria. Resource control dominated the types of agitations that participants from the east and south listed in the survey. Although the 1999 constitution provides for benefits from oil extraction for the people in the south and east, there has been considerable opposition to this provision. These agitations were shown to have the unsettling ability to cause division within the group and eventual discontinuation of unity or cessation in the country. In light of this, this study suggests renegotiating oil extraction incentives in order to justify the host communities' approval of natural resources. To achieve success in implementing this recommendation, renegotiation should follow a bottom-up strategy.

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# **THE STATE OF POLITICS, DEMOCRATIC GOVERNANCE, AND THE CRISIS NIGERIA'S NATIONAL DEVELOPMENT**

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**Abstract:** *Several ventures have been undertaken by the government and successive administrations in Nigeria over the decades to satisfy the compelling search for national development and enhanced better life programs for the people. This constant desire compelled various governments of the day to devise various development plans in order to determine which one would address the constant lack. As a result, this paper examines the institution of the state, politics, and democratic governance as the piper who determines the tone of the pipe in the achievement of national development. The study's findings show that the failures of several development plans can be attributed to Nigeria's weak institutions of the state, politics, governance, and democracy, through which formulated policies are meant to be implemented, resulting in repeated failure. Other discoveries include: poor consultation, strategies that are irrelevant to the needs of the people, and a governance crisis, among others. The paper employs social development theory to address the Nigerian polity's problems of poverty, inequality, and mass illiteracy. The study employs a qualitative analysis method that heavily relies on secondary data. The paper recommended that politicians demonstrate political will to carry out plans; there should be stability and continuity of proposed policies or programs; and a radical approach to politics that emphasizes values such as honesty and modesty, among other things.*

**Keywords:** *State, Politics, National development, Democracy.*

## **Introduction**

The Nigerian government has long sought to achieve a state of development through the use of various types of plans ranging from short term, medium term, and long term plans (Marcellus, 2009). However, most of the strategies have been the same with minor differences in their objectives, and it is unfortunate to mention that with so many plans, the concept of development appears to be so evasive, so we are frequently pursued with the questions of why has Nigeria remained in one place for so long while several colonized counterpart nations have risen above the way they are for a long time and have been able to seek themselves out by overcoming the challenges of underdevelopment. It is argued

that appropriate development strategies in Nigeria have resulted from methodologies that fail to appreciate the entire picture of rural communities and, in particular, have ignored local perception, need, and understanding (Olawepo, 2004 citing Binnis, 1997).

Furthermore, the development paradigm that favors development in the Western world has failed developing countries, with a particular focus on Nigeria. The emphasis is shifted from the pragmatic nature of various development strategies to the state of politics, governance, and democracy as its implicative stance will determine the development of any nation, people, or country, particularly Nigeria as the subject of focus or analysis.

#### Aims and Method

The purpose of this paper is to critically examine the role of politics, governance, and democracy in determining a country's level of development. There has been little or no work on this aspect, and the study aims to fill the gap in the literature while also greatly contributing to knowledge by expanding issues relating to national development as they relate to the state as an institution that drives development. Furthermore, researchers and policymakers interested in development studies, administration, and governance will find this paper informative and useful. The work employs a qualitative method of analysis to elevate issues concerning national development and the trajectory steps taken by each government of the day in bringing development to the doorsteps of her citizens. Anyanwu (1992:4) argued that government exists to be visible in the lives of its people by making a concerted effort to touch them. As a result, the state as an institution must be well positioned and upstanding in meeting the needs of the people. To accomplish this goal, materials obtained from secondary data are content analyzed to sift the relevant information required for proper prosecution.

### **Conceptual Clarifications**

#### *The concept of state*

The origins of the concept of state can be traced back to two major traditions: Weberian (Weber, 1964) and Marxist (Marx and Engels 1852/ 1958). A state, according to Max Weber, is a human community that successfully claims the monopoly of legitimate use of physical force in a given territory. The claim to a monopoly on the use of force is highlighted here. Indeed, Weber saw the state as an institution that exists to protect and regulate society. Marxists reject the liberal theory's position that the state is essentially neutral and stands aside to mediate the contradictions inherent in society (Best, 1990). The state, on the other hand, is viewed as a product of a social system marked by class contradictions, struggles, and class dominance. As stated, it is a specific mode of class dominance (Ake, 1995). The state is construed as an agent of the bourgeoisie in the communist manifesto, and thus the executive of the modern state is a committee for managing the bourgeoisie's common affairs. Other broader concepts associated with the state as a human institution include:

**Polity:** The most powerful political entity, with complete autonomy. A polity establishes government and grants it legal recognition and power to rule over the territory and people under its control. It operates with a hierarchy and administrative control (Paul, 2014). It has operational etymological indices, such as hierarchical echelons and administrative structure control that are measured or observed. These tools are used for maintenance and



administration in order to maintain the status quo and maintain continuous stability (Akpantu 2021: 12).

Nation and National State: A nation is a group of people who share a common language, culture, history, religion, or tradition and are usually concentrated within a specific geographical reality or region. A nation-state, on the other hand, is bound together by a culture shared by its people (Israel, 2010:16).

### *The Concept of Politics*

Politics has become more intricate, complex, and difficult as a result of the changing nature of the field. This is due to man's changing nature and complexities. Politics, on the other hand, is a noun derived from the Greek word polis, which means city-state. Citizens are, by definition, residents of the city state (kpedi, 2013:45). It should come as no surprise that politics is fundamentally a struggle, a battle, and an attempt to establish order and justice; in this light, politics can be viewed from the subjective idealism or an ideal philosophical concept and existential, which is the point of view of reality. Politics cannot be separated from the real political world, according to this link. It is an indifferent and hostile world, in the words of a Danish philosopher popularized by Sarte (1905). Aristotle (384-322 BC) corroborated this statement when he observed that man is a political animal by nature, which meant that the essence of social existence is politics and that two or more men interacting with one another are invariably involved in a political relationship. This is because man has always preferred social companionship to isolation. Several proponents of the term "politics" defined it as follows. Politics, as defined by Harold Laeswell (1937) in his famous book *Politics*, is concerned with who gets what, when, and how. He attempts to broaden the scope of his investigation to look for politics in a variety of social settings other than formal public government. It emphasizes the fact that politics is about people making decisions about certain goals that they deem desirable. In his definition, Harold Laeswell emphasizes the role of power in the distribution of scarce resources.

David Easton (1953) defined politics as a process by which legally binding judgments on the distribution of scarce values are made for a society in a changing world in his book *Political System*. In this regard, he views politics as the established distribution of values in a hierarchical society. Easton looks into how decisions are made in connection to the demands that are put into the system. According to Ola (1995), it is the management and exercise of authority inside a nation-state or community that already exists and is made up of a collection of individuals who share some common interests, feelings, and behaviors as well as shared limits and ideals. Politics, seen from a pluralist angle, entails rivalry between several interest groups, with each pushing for its own advantage. Politics is a game of negotiation and compromise since no one group is perceived as dominating. However, in the works in relation to their biographies, the liberal and Marxist political views will be disentangled.

### *The Liberal View on Politics*

Max Weber, a German sociologist and social historian, is regarded as the foremost proponent of the liberal political philosophy. In 1864, Weber was born. His father, a wealthy attorney and national liberal legislator in Bismarck's Germany, came from a family of textile manufacturers in western Germany (Agbefe 2001). He lived the majority of his life in his current home, which served as a gathering place for both renowned liberal

politicians and revered professors from the university of Berlin. His mother was a woman of culture and devotion whose humanitarian and religious interests were not shared by her husband. He enrolled at the University of Heidelberg as a law student after graduating from high school in 1882. He left the army for a year's worth of military training a year later, when he was nineteen, then returned for a few months of military training in 1885, 1887, and 1888. He continued his studies at the universities of Berlin and Hottingen for two more years before taking his bar test there in 1886. Law and legal history were the initial subjects of his autonomous scholarly study. He began the in-service training necessary for the German bench or bar after finishing his dissertation. He had the opportunity to learn about the social and political issues facing the rural society in the east province of the Elbe River during this course. At the same time, he started studying legal systems in order to become officially qualified to teach law at the University of Berlin (Arthur, 1930). He prepared himself for his duties as a privatdozent in Roman, German, and commercial law at the university of Berlin, meanwhile, while working on this dissertation. Along with researching the stock exchange in 1852, he also conducted a thorough analysis of rural labor in the German provinces east of Thelma, which resulted in the production of a 900 page volume in 1892. He wed Marianne in 1893, at least leaving his parents' home. He was appointed a full professor of economics at Forciburg University of Heldeberg in the fall of 1894. Webar became unwell in the fall of 1987, when he was thirty-three, and was forced to cut back on before finally suspending his regular academic activity. For four years, he battled a severe case of weariness and worry. At times, even minor diversion proved to be too much for him, and this otherwise active man would spend hours at the window gazing into space. He appeared to gradually heal after almost four years and restart his insatiable reading habit. A portion of it was focused on the economic, organizational, and historical aspects of medieval monasteries. He accepted an invitation in 1904 to travel to the United States and take part in the arts and sciences conference that was held in conjunction with the world's exhibition in St. Louis. In the same year, he resumed his academic pursuits, and the first results of his labors, including "An Essay on Methodology; A Discussion of Agrarian Policies in Eastern Germany, Protestant Ethics, and the Spirit of Capitalism," were published. He served as a consultant for the German Armistice Body and a commission entrusted with creating the Welmar constitution in 1918. During the summer of that year, he also lectured at the University of Vienna, and in 1919, he accepted a job offer from the University of Munch. At the age of 56, he passed away from pneumonia in June of 1920. Clearly, the liberal political philosophy is oriented on power, which they defined as the means by which they can achieve their goals despite opposition in a social context.

### *The Marxist view on politics*

This school of thought traces its roots back to Karl Max, who was born in Treves, Germany, in 1818. As the son of a Jewish lawyer who later converted to Christianity, he became involved in political activities at a young age. In 1848, during a period of widespread revolt in most European kingdoms, Max publicly urged the people of Cologne not to pay the taxes imposed by the Prussian government, for which he was tried for sedition but acquitted by the jury. Later, when he returned to England, he was expelled by the authorities and continued to be preoccupied with politics and write political writings until his death in 1883 (Marxist 1863 *Das capital*). They all dealt exclusively with one or more aspects of what

was called politics in his *Work the communist manifesto* (1848) with Engels. Despite the fact that Marx spent his entire life in politics, he saw economics as the primary motivator for politics. As a result, human history is based on the principles of class and exploitation. Marxism's understanding of politics is based on his perceptions of society and the individual. To him:

- a. Politics is a secondary concern for him because he believes that economics determines the revolution. Religion, morality, and politics are all governed by economics.
- b. Politics is a secondary activity to the basic necessities of life, such as wringing personal security from scarce resources. Politics is a conflict of interest that arises from differences in orientations and attitudes resulting from class conflict and social change.
- c. Political conflict will end only when the market and social classes are abolished.

### **Politics of the Nigeria State: A Physique**

The Nigeria State as an entity can be traced back to the colonial administration of the Northern and Southern protectorates in 1914, when both entities were contracted as a simple organization for administrative convenience and rulership via indirect rule in 1900. (Eregha, 2008). During this time, Nigeria was divided into several sub-divisions, including the crown colony in Lagos and Calabar and the protectorate in other parts of the country. The British used the principle of institutionalization of imperialism to protect their metropolitan interests (Toyo, 2002:17). However, during the nationalist movement, there was a fierce class struggle between the dominant indigenous social class and the metropolitan bourgeoisie, which included a battle for control of the state apparatus. Thus, after independence, the nationalist leader's character began to emerge in them, particularly as they assumed positions. No wonder, according to Fandakinte (2010), they appear to be unconcerned about their people's deplorable conditions and the inherent injustice that colonialism has created in their societies. The petty bourgeoisie, now in positions of political authority, was more interested in absorbing the colonial lifestyle and privileges than in abolishing the Nigerian State's injustice and oppression (Ekekwe, 1986). As a result of the elimination of the common enemy at independence, the masses were confronted with an indigenous ruling class content to inherit the colonial economy with no intention of reforming it.

Furthermore, following independence, Nigeria began to develop a political class comprised of those who succeeded the colonial state hierarchy. Members of the class were made up of western capital agents who came to power to carry out policies that had to promote the interests of the metropolitan bourgeoisie. This gave birth to capitalist forces (Drake, 2010). This alone resulted in a nation-building crisis characterized by hegemonic struggles for power at the center and the birth of the 1979 constitution, which was a watershed experience in Nigeria's constitutional development; however, the subsequent party politics that emerged were not much different from what existed in post-independence Nigeria. Political parties were formed along ethnic lines, and ethnic divides were politicized by the political class. Politics of bitterness and winner-take-all, rather than politics of tolerance, invariably resulted from the symptoms of incompetence, ignorance, and corruption. Further crises in revenue allocation, state formation, civil war, power-sharing, and coup d'etat nearly led to the political entity's disintegration in Nigeria (Ornoyibo, 2020). Since then, Nigeria has faced claims of marginalization, separatist agitation, resource control,

inter-communal conflict, and insurgency. Terrorist attacks and rejection of the Nigerian state have become a new threat to the country's cooperative existence. Perhaps it was the need to avert some of these crises, promote national unity, and command allegiance that gave rise to the Federal character principle and the quota system as affirmative action to ensure a sense of belonging and loyalty to the federation. As a result, the Federal character principle requires that government activities and institutions reflect the diverse ethnic groups that comprise Nigeria's geographical expression (section 14, 1999 constitution). Unfortunately, the reason for enacting this principle was defeated because it was distorted and used for selfish purposes by the dominant and ruling classes. The principle allowed them to sponsor candidates for high-level political positions, increasing their power and undermining the spirit of the principle.

Policies, programs, ascension to positions of power and influence, wealth, and security, according to Eze (2009), were invariably determined by a few individuals who re-cycled themselves or their relatives and children into power and position of authority in a patron-client relationship as government business and activities became personalized, laws became personified, and dissent opposition to policies and power became suicidal as the Nigeria state became privatized (Ivie, 2020:45), over fifty years of political independence, the country is still reeling from vociferous and sometimes violent challenges to its power and hegemony in various parts of the country, particularly in the East, the Niger Delta, the west, the middle belt, and the North East, where insurgency and terrorism is heavily led by Boko Haram. Despite billions of dollars earned from the sale of crude oil and gas, the country is more insecure, less stable, and less confident today than it was at independence. Citizens are assaulted, maimed, or killed on a daily basis by either the police or armed robbers and assassins, and the state appears incapable of resolving the decimated situation caused by the scourge of poverty and ravaged by bribery and corruption in low and high places. The agony of the citizens is exacerbated by a lack of basic infrastructure such as motorable roads, electricity, portable water, and other basic amenities that are taken for granted in many other countries (Otutu, 2020).

### **Political Parties and Democratic Governance in Nigeria**

Understanding the performance of political party leadership and democratic governance in Nigeria requires an understanding of the character of the state and its politics. Democratic governance in the first republic was plagued by political corruption, kleptocracy, and nepotism, with governance and nation building sacrificed on the altar of ethnic, parochial, and personal interests (Aliu, 2013:39). The prominent mobilization and manipulation of ethno-religious sentiment in order to acquire and consolidate state power and ensure economic control were major characteristics of political parties and politicians during the first republic (Sclotu, 2005). This development contributed to Nigerians' unhealthy rivalry and tension, as well as the dangerous conflagrations that engulfed the first republic, as exemplified by the 1963 census crisis (Omodia, 2013). The second republic's democratic governance, guided by political parties, began on October 1, 1979, and marked the end of the military intervention in Nigerian politics that began on January 15, 1966. The failure of democratic governance to improve the delivery of public goods and services and promote societal peace and stability dominated national discourse so extensively that Nigeria had to deal with problems of political leadership ineptitude, widespread political

corruption, identity-based politics, massive electoral malpractices, and politically motivated violence until the military overthrow of the second republic (Ogundiya, 2009). According to Otutu (2020:15), the annulment of the presidential elections on June 12, 1993 caused another setback to Nigeria's democratic whims and caprices because it could have cemented the smooth transition to legitimate governance.

However, when democratic governance was established in 1999, there was a great deal of hope, accountability, transparency, popular participation, and an improvement in people's economic well-being (Aliu, 2013). Most Nigerians express high hopes because they recognize that in the previous republic, democratic governance was mismanaged by political parties and the ruling elite, wreaking havoc on the quality of governance, economic development, and people's welfare. The media and civil organizations appear to have more freedom and liberties in this republic. The legislature was highly regarded as the basking bastion (Fashgbeya, 2010). This experience allowed for some checks and balances in governance (Ibe, 2014). It is worth noting that Olusegun Obasanjo's spectacular regime resulted in the widespread use of the global system for mobile communication, a new salary scale for civil servants, and debt rules secured for the country. Other associated successes include the passage of a freedom of information bill, respect for the rule of law, the establishment of some federal universities, and previous administrations' deregulation of the downstream sector (Igba, 2021). Despite these monumental achievements, political parties and leadership continue to be plagued by flaws stemming from persistent shortages of food, employment, security, portable water, accessible healthcare, and roads. The widespread manifestations of insecurity, such as armed robbery, kidnapping, banditry, and insurgency, explain the country's precarious state (Orntola, 2008). According to Ikelegbe (2020), some of the visible problems of governance in Nigeria are as follows:

#### *Crisis of Governance*

In recent years, the federal government's approach to governance has been described as slow, inactive, and reactive. Herders attacks and associated atrocities, for example, have received little state response, as perpetrators are rarely arrested and prosecuted. There is a sense of federal government tolerance, inaction, and lack of attention, which has reinforced the impunity and expansiveness with which crimes are committed without any form of punishment. According to the Freedom House report (2020), Nigeria is partially free, but it is one of seven African countries that have seen a significant decline in democratic governance and respect for human rights.

#### *Utility and Development of State Power*

Governance is becoming increasingly concentrated in a few presidential aides known as cabals, whose composition, interests, and goals appear to be narrow and identity based. Federal character, the quota system, and equity have all been abandoned.

#### *The State and the Management of Security*

Conflict, violence, and criminality are on the rise, and more and more households are becoming vulnerable to violent incidents such as crime, cultism, resource disputes, communal and religious conflict, and terrorism (World Bank & NBS 2018). No surprise, development has been highly obscured and appears to be a never expected phenomenal as a result of the challenges that have bedeviled governance and politics in Nigeria.

## **The Concept of National Development**

However, national development as a concept is complex and multifaceted, encompassing social, economic, cultural, and other aspects of life. Throughout history, men have strived to improve their ability to conquer the environment in order to raise their standard of living. According to Onyeaka (2010), national development begins and ends with a focus on human resources. Human resources are all economic resources that are entirely enjoyed and directly supplied by humans through the establishment of the state and developmental politics laced with governance. It is important to note that the size of human resources is largely determined by population size, whereas quality is determined by educational, health-care, and environmental factors.

### *Stages of National Development*

In the light of the above discourse Rostow (1960) capture the stages of development as follows:

#### *Traditional Society*

Subsistence agriculture or hunting and gathering are prominent. It is almost entirely a primary sector economy with limited technology, some advancement and improvement but limited economic growth potential due to a lack of modern technologies and a lack of class or individual economic mobility. This is not to say that the economy is dormant; there are still opportunities. To survive, people rely heavily on manual labor and self-sufficiency, as trade is primarily regional and local, and is conducted primarily through barter with an underdeveloped monetary system (Omegu, 2017:56). Wars, famines, and epidemics reduce population by limiting the only factor of production. Manufacturing and other industries have the potential to grow, but are hampered by a lack of scientific knowledge and a backward or traditionalist mindset, both of which contribute to low productivity. As a result, political power is concentrated in the hands of landowners, family lineage, and marriage ties (Decorium, 2003).

#### *Precondition for Takeoff Stage*

External demand for raw materials indicates economic change and the development of more productive commercial agriculture and cash crops that are not consumed by producers but are largely exported. There is widespread and increased investment in physical environment changes in order to expand production. Technology is becoming more widely available, and existing technologies are being improved. Individual social mobility grows, as does national identity development and shared economic interest. The economy goes through a change process in the second stage to create the conditions for growth and takeoff (Glickrnan, 2000:45). According to Rostow, changes in society or the economy must be fundamental in the sociopolitical structure and production techniques.

According to Rostow, these transitions have three dimensions: first, the shift from an agrarian society to an industrial or manufacturing society; second, trade and other commercial activities of the nation will broaden the market scope to neighboring areas, regions, and international markets; and third, the nation's trade and other commercial activities will broaden the market scope to neighboring areas, regions, and international markets. Surpluses are spent on industry development, infrastructure, and self-sustaining

economic growth. Agriculture becomes commercialized and mechanized as a result of technological export crops (Boro, 2021:45). Many sectors of the economy are experiencing an increase in investment, and capital formation is dependent on agricultural productivity and the creation of social economy over head capital as surplus quantities of product are to be utilized to support an increasing urban population of workers, as well as become a major exporting sector earning foreign exchange for continuous development and capital formation. Increased agricultural productivity leads to an expansion of domestic markets for manufactured goods and process commodities, which contributes to industrial growth and development. All of these changes will only be effective if there is a fundamental shift in society's attitude toward risk-taking, a change in working conditions, and an openness to change in social and political organizations or structures (Glickman 2009: 10).

### *Take off*

This stage is distinguished by an increase in urbanization, industrialization, progress, and technological breakthrough, as well as an economic shift toward the secondary sector and dynamic economic growth based on political, economic, and technological advancement. At this point, the norms of economic growth are well established, and growth becomes second nature and a shared goal for a country. Rostow identified three requirements for the takeoff stage, which are as follows: The rate of productive investment should rise from around 5% to over 10% of national income or net national product, as well as the development of one or more significant manufacturing sectors with high growth rates.

According to Onyeaka (2010), there is the existence or rapid emergence of a political, social, and institutional framework that capitalizes on the impulses to expand in the modern sector as well as the potential external economy effect the take off. The third requirement implies that the required capital must be mobilized from domestic resources and directed into the economy rather than being consumed domestically or by the state. Industrialization is a critical phenomenon because it helps to lay the groundwork for large-scale social change. Take-off necessitates a large and sufficient amount of loanable funds for industrial sector expansion, which typically comes from two sources: a shift in income flow way of taxation, the implementation of land reforms and various other fiscal measures, and the re-investment of profits earned from foreign trade, as observed by many East Asian countries (Marie, 2012).

### *Drive to Maturity*

This stage is marked by the diversification of the industrial base, as well as the multiplication and expansion of industries. Manufacturing is shifting away from capital goods and toward consumer durables and domestic consumption, as evidenced by rapid development of transportation infrastructure and large-scale investment in social infrastructure such as universities, hospitals, and health centers. According to Rostow, it is a period in which a society has effectively applied the range of modern technology to the majority of its resources. Approximately 10%-20% of the economy is consistently invested, allowing output to consistently outstrip population growth. As technology advances, new industries emerge, and the economy shifts in three ways: increased skill acquisition and wage increases, a shift in agricultural labor from 75% to 20% of the population. In the industries, the character of the leader changes dramatically, and a high level of professionalism is employed. During this time, a country must decide whether to

use its industrial power and technology for the benefit of its people or to gain total dominance over others or the world (Sach, 2015:65).

### *Age of high Mass Consumption*

The industrial base dominated at this stage, while the primary sector lost ground. Rather than the subsistence concern of previous stages, there is widespread and normative consumption of high-value consumer goods that are durable in nature. Rostow employs the Budden Brooks dynamic metaphor to describe this shift in attitude in Thomas Mann's 1901 novel Budden Brooks, which follows three generations of a family. The first generation is concerned with economic development, the second with its social standing, and the third with money and prestige who is concerned with art and music. According to Rostow, this society can focus on military and security issues, equality and welfare issues, or developing great luxuries for the upper class. There is a desire to create an egalitarian society, and steps are being taken to achieve this goal. Nigeria appears to be a typical example of a traditional society, with little room for growth and development. Indicators of underdevelopment such as inequality, poverty, and unemployment are so compelling that young people have turned to kidnapping, internet fraud, and other unfathomable means of survival.

### **National Development Strategies in Nigeria: A brief Overview**

The constant pursuit of development has resulted in numerous proposed strategies to bring Nigeria to the forefront. Community boards from 1954, farm settlement schemes from 1959, the first national development plan (1962-1968), and the second national development plan (1974-1980) the third plan period (1980-1985) and the fourth plan period (1985-1995) (1985-1990) Agricultural development projects, operation feed the nation, national directorate for employment, green revolution mass mobilization for self-reliance and economic recovery, river basin development authority, and national accelerated food production are all part of the post-fourth plan period. program, national livestock development, the directorate of food road and rural infrastructure, integrated rural development programs, the national economic empowerment and development strategy, vision 2010, vision 2020, and the President Muhammadu Adnlinistration's recent vision 2021-2025 ( Ohagwu, 2010).

From the foregoing, it is clear that despite the numerous strategies adopted by various regimes, development remains elusive. It is also clear that the problem is not one of strategies, but of the nature of politics and governance played by relevant actors in positions of authority. In actuality, the state's responsibility to uphold its social compact with the populace prevents it from being exonerated of responsibility for this persistent socioeconomic problem. Olubunmi (2018:97) claims that the recent vision 2021–2025 is already marred by high deficit borrowing, inequality, and mass unemployment despite having the goals of building a strong foundation for a diversified economy, investing in crucial physical, financial, digital, and innovative infrastructure, a vibrant educated and healthy population, and promoting development opportunities across states.

### **Crisis of National Development in Nigeria**

Some of the challenges to national development are hinged on these factors:



People's culture: A development project will fail if it does not take root in the people's culture. Culture, according to Mbakoju (2004), is the fundamental indicator of how quickly or slowly a society is evolving. To combat poverty, the nation's tourist and cultural potential should be increased. It suffices to say that many industrialized countries made that decision as a fundamental one, which prompted their eventual turnaround. In the case of Nigeria, the government has always been bent to the will of its drivers rather than the needs of the region.

Relevance of Strategy: Since development is designed to bring about or generate the overall well-being of the populace, we must determine how much the project has benefited the populace. Therefore, prioritizing is necessary when developing strategies. It makes sense why Joseph (2014) asserted that the Nigerian economy is still fragmented and does not encourage development. It means that there will always be persistent issues as long as politics and government are practiced to suit foreign ways. Nigeria as a nation "has not reached the point of adopting indigenous methods of building her economy and thus would continue to perpetuate the unfavorable status quo.

Public Docility: People are occasionally apathetic and indifferent toward government policies and their implementation, which results in little to no public demand for accountability and allows public employees to steal with impunity (Ivie, 2021).

Security issues: Pose a severe threat to Nigerian towns' ability to grow. For both public and private businesses, the majority of the states in the Nigerian federation are extremely dangerous. Boko haram and banditry are a serious threat to the north, east, west, and center, while farmers and herders clash, people are being kidnapped for ransom, and there is self-rule agitation throughout the entire south (Audu, 2021:12).

Corruption: This has been the biggest obstacle to Nigerian governance. Politicians frequently utilize public funds for their own purposes. Some even exaggerate numbers to make excessive profits at the expense of the public (Sach, 2015).

### **Theoretical Frame Work**

The social development theory developed by Dudley Seers in 1969 is used in this essay to discuss how to bring about desired change in a society. As was already established, Dudley's theories from 1969 are where social development theory got its start. He was a development theorist with Cambridge training who placed emphasis on the importance of social development in poor nations before shifting to economic development. What has been happening with poverty, literacy, and the eradication of social inequity, he claimed, should be the key question. The social development theory is a good fit for this project because it touches on the fundamental elements of national development. The people who government is supposed to serve greatly benefit from its policy prescriptions, which include reducing poverty, emphasizing education, addressing social inequity, and promoting political independence.

### **Conclusion and Recommendations**

It is accurate to say that the status of politics, government, and democracy has a stifling impact on a country's ability to flourish. Since achievements are not obtained miraculously but rather via the efforts of government officials whose will and loyalty have been

submitted to by the people, no legitimate state or nation can exist without state actors selected for one role or another in directing its national affairs. Therefore, it is important to underline that unless they are inspired by people, plans in their current state are lifeless. Because government and democracy start with and end with the people, not state elites, it is important to note that these ideas are intended to be legislated upon by honorable state officials with conscience and demonstrated character. The following recommendations are postulated in this paper:

1. In order to create and carry out programs, political leaders must have the necessary political will. They need to have the political will to go beyond just spreading misinformation and accusing people of being corrupt. It is important to enhance the anti-corruption organization and protect it from being used as a political tool. In order to prosecute offenders quickly and effectively, laws need be changed.
2. For a very long time, the Chinese and Japanese have been looking within for change. After the Second World War, these societies began to manage their resources within their own context and developed and modernized their traditional and indigenous ways of doing things and getting things done, which has elevated them to the status of highly developed states. These societies understood the importance of the citizenry to a sustainable development. China today dominates the group of countries with highly developed technology and provides more than 70% of the electronics used in Nigeria.
3. Instead of persistent borrowing, there should be widespread expansion of the agricultural sector and of indigenous businesses to support our domestic economy.
4. The stability and continuity of effective policies without regard to political parties and personal aggrandizement, as opposed to quick change that accomplishes nothing, is another path ahead proposed in this work.
5. The nation as a whole has to be reminded of the character principles of honesty and modesty. Every aspect of Nigeria's public sector ought to be aware of and committed to modest living and conduct. As a result, there ought to be sanity and a fundamental shift in attitudes and actions.

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## EXPLORING STRUCTURAL BREAKS IN INTERNATIONAL STOCK MARKETS AND ITS IMPLICATIONS

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**Abstract:** *Structural breaks are important stylized facts that should be included in the analysis of security market returns. Predictions on stock markets are susceptible to variations in economic events which may not materialise with the passage of time. Accordingly, improving the accuracy of stock market forecasts should embed to a larger extent unobserved heterogeneity which explains structural breaks. Therefore, the aim of this study was to explore structural breaks in asset returns which makes forecasting very difficult. Using the chow and CUSUM square test and a sample period from January 02, 2018 to January 2, 2023, the findings revealed that structural breaks varies across financial markets. More specifically, the Nasdaq and Nikkei 225 displayed significant breaks. However, no significant breaks were observed in the JSE, CAC and DAX. In the BIST, the breaks were insignificant at 5% but significant at 10% confidence level. The implication of this study is that there is a high probability that forecasting the performance of the Nasdaq and Nikkei 225 will not realise and we expect to see volatility persistence in these markets.*

**Keywords:** *Structural breaks, Chow test, CUSUM square, market returns, stock market forecast.*

**JEL Classifications:** *D53, G15, G32.*

### Introduction

The performance of international stock and bond markets came as a surprise in 2019 despite recession concerns. The broad equity world (MSCI index) finished 20.19% higher than the previous year while the Bloomberg Barclay global aggregate bond index had a 7.43% return (MSCI, 2020). Most often, there are several forecasts that are made at the start of the year by several finance experts regarding the performance of stock markets as well as financial indicators. In more than one occasion, these forecasts don't materialize as expected which has cast several aspersions on the integrity of these analysts. It may therefore imply that there is no reliable approach in predicting trends in financial markets. The preceding statement is in tandem with Swedroe's (2018) paper which tracks predictions made across stock markets and benchmarked the results. The findings of Swedroe's (2018) research revealed that only 32% of these financial forecasts were actually realised. The results corroborate the findings of Bailey, Borwein, Salehipour and De Prado (2018) who also found that less than 50% of stock market predictions made by several analysts are actually correct. It is therefore evident that there may be still some relevant factors that are not considered when predictions are made on financial indicators and performance of stock markets. One of these factors may be structural breaks on stock market returns which is still a grey area with paucity of research. In essence, it is still not clear whether structural breaks were considered when making predictions on the performance of stock markets as this events have severe consequences. Also, accounting for structural breaks has a significant risk and reward impact as contended by Baek and

Lee (2018). Until recently, most estimations and forecasting models had a constant struce conditional mean which may have been a contributing factor to the wrong forecast estimates (Mammen, Nielsen, Scholz & Sperlich, 2019). Structural breaks are the abrupt change in parameters of the conditional mean in stock market returns (Dufays & Rombouts, 2020). This abrupt changes need to be established and considered when making market forecasts (Maheu & Gordon, 2008). In essence, accounting for structural breaks should be an essential component for coefficient stability, forecasting and policy making. The aim of this study was therefore to determine whether there is a notable change in stock market returns coined structural break which makes forecasting difficult. This study adds to the body of knowledge on stock market forecasting and explains why some predictions made by financial market specialists and analysts didn't come true which is a notable advancement in the body of knowledge on stock market forecasting. The section below presents the literature followed by the methodology, findings and conclusion of the study.

### Literature

Structural breaks are more of a functional misspecification when the relationship between variables changes over time without accounting for those changes (Hansen, 2001). Accordingly, the trend in a series is distorted and will be significantly different at different points in time. In the context of stock market returns, there will be no correlation between the past and future returns which typifies the efficient market hypothesis (Enow, 2022). The randomness in stock market price movements may be as a result in changes in the residual mean which may affect the conditional mean (Muguto & Muzindutsi, 2022). Below, a summary of prior literature is presented;

**Table 1: Summary of prior literature on structural breaks**

Study	Model	Period	Country	Findings
Sethapramote & Prukumpai (2018)	GARCH (1,1)	1975 -2010	Thailand	Presence of structural breaks in Thailand stock exchange which were as a result of policy changes.
Baek & Lee (2018)	CUSUM and Bai-Perron	1871 - 2012	United States	Structural changes in price earnings ratio affect long term returns.
Tsuji (2018)	GARCH (1,1)	2000 - 2018	China	Structural breaks causes persistent volatility.
Karavias, Narayan & Westerlund (2022)	Sup-Wald Test	January 3 - September 25 2020.	United States	Structural breaks were observed during the Covid-19 pandemic.

From the table above, it is evident that recent research on structural breaks and asset returns are limited. Although the above studies have explored structural breaks in financial markets, there is still a gap on whether these breaks were significant or not. Hence this study attempts to fill in the gap in literature. The section below highlights the methodology.

**Methodology**

This study made use of the Chow test to identify structural breaks in the stock market returns. A chow test is designed to identify structural changes in time series data when the parameters of the dummy variable are used as an interactive term to investigate the difference in variance and slope (Özdemir & Akif, 2019). Profoundly, this method identifies structural breaks using exogenous and endogenous variables with break dates and significance levels. This break dates are established by the CUSUM squares while the F-test statistics provides the significance output. More specifically, the CUSUM squares test is a quality control mechanism designed to detect a shift in the mean variable from the expected (Crosier, 1988). In its simplest form, The Chow test equation, parameters and hypothesis is given below

$$r_t = \beta_0 + \gamma_0 r_{t-1} + \dots + \varepsilon$$

$$F\ Stats = \frac{[SSR_t - (SSR_1 + SSR_2)]/k}{(SSR_1 + SSR_2)/[n - 2(k + 1)]}$$

Where  $\beta_0$ ,  $\gamma_0$  are the intercepts and coefficient of lag the lag returns respectively.  $SSR_t$  is the Sum of Squares regression while  $n-2(k+1)$  is the degree of freedom (Özdemir & Akif, 2019). The null and alternate is given by;

H<sub>0</sub>: No structural breaks at specified breakpoints (P-value more than 5% or 10%).

H<sub>1</sub>: Structural breaks at specified breakpoints (P-value less than 5% or 10%).

The sample stock markets were the Borsa Istanbul 100 (BIST), the French stock market index (CAC 40 Index), Frankfurt stock exchange index (DAX Index), the Johannesburg stock exchange (JSE Index), NASDAQ Index and Japanese stock index (Nikkei 225). The sample period was from January 02, 2018 to January 2, 2023. The main variable was the daily returns of the sample stock markets. The section below presents the findings of the study.

**Results and discussion**

In the data analysis process, a descriptive statistic was first computed before the chow test. The aim was to provide a descriptive summary of the sample stock returns. The findings are presented below.

**Table 2: Descriptive statistics**

	<b>BIST</b>	<b>CAC 40</b>	<b>DAX</b>	<b>JSE</b>	<b>Nasdaq</b>	<b>Nikkei 225</b>
Mean	0.054%	0.028%	0.019%	-0.007%	0.046%	0.020%
Standard Error	0.093%	0.036%	0.038%	0.048%	0.046%	0.036%
Standard Deviation	3.2%	1.2%	1.3%	1.6%	1.6%	1.2%
Kurtosis	697	11.95	11.71	2.80	6.14	3.58
Skewness	-23.01	-0.73	-0.37	-0.11	-0.42	0.04
Range	1.06	0.21	0.23	0.16	0.22	0.14
Minimum	-98.9%	-12.2%	-12.2%	-9.5%	-12.3%	-6.0%
Maximum	6.6%	8.3%	10.9%	6.2%	9.3%	8.0%

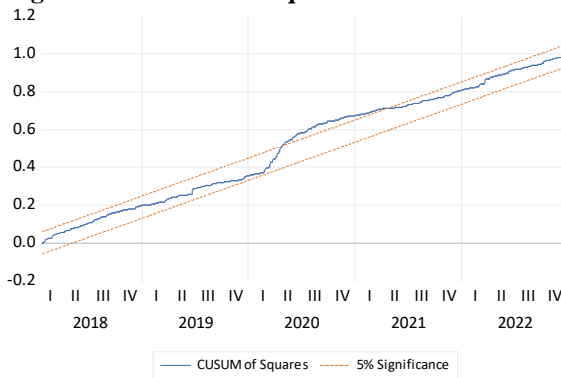
Table 2 above provides a summary of the descriptive statistics for all the financial markets under consideration. The average mean returns were very low for the 5-year period but positive with the exception of the JSE. The standard error of mean returns was also considerably low which is by implication a low likelihood that the population mean differs from the sample mean returns. Also, the highest market swings in the most recent 5 years was observed in the BIST 100 with the highest standard deviation and fat tail. This heavy tail may signal large return values in both directions with an infinite probability. Furthermore, all the stock markets considered in this study displayed signs of asymmetry with the BIST, CAC 40, DAX, JSE and Nasdaq skewed to the left while Nikkei 225 skewed to the right. The main analysis for structural breaks is provided below.

**Table 3: Chow Breakpoint Test**

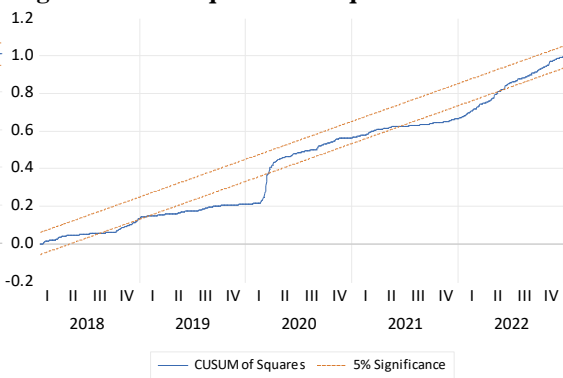
	F-statistics	Log likelihood ratio	Wald Statistic
JSE	0.564 (0.568)	1.13 (0.567)	1.12 (0.568)
Nasdaq	8.74 (0.000)*	17.42 (0.000)*	17.48 (0.000)*
CAC 40	0.23 (0.794)	0.46 (0.793)	0.46 (0.794)
DAX	0.04 (0.959)	0.08 (0.959)	0.08 (0.959)
Nikkei 225	3.67 (0.025)*	7.35 (0.025)*	7.35 (0.025)*
BIST	2.71 (0.066)	5.43 (0.066)	5.43 (0.066)

Source: Eviews

**Figure 1 JSE CUSUM Square Result**

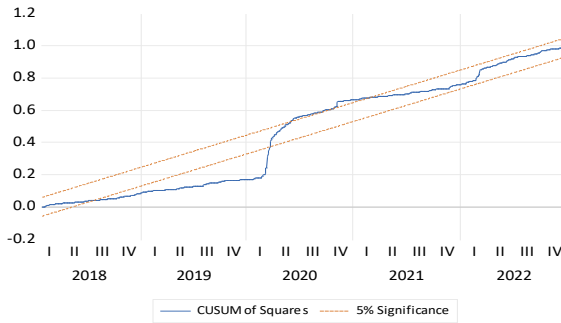


**Figure 2: Nasdaq CUSUM Square Result**

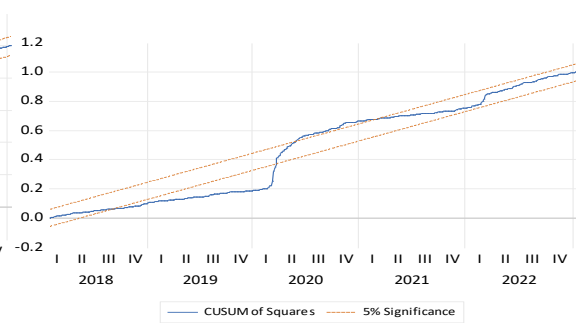




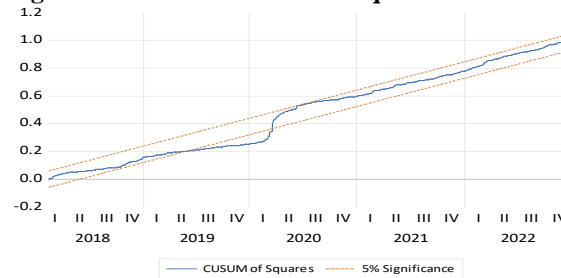
**Figure 3 CAC 40 CUSUM Square Result**



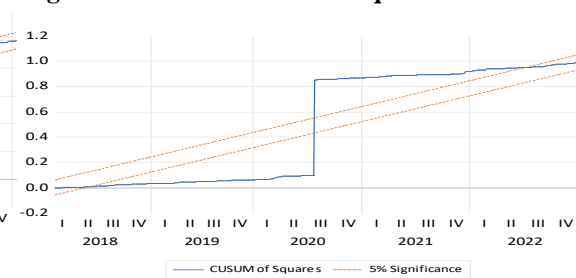
**Figure 4: DAX CUSUM square Result**



**Figure 5: Nikkei 225 CUSUM Square Result**



**Figure 6: BIST 100 CUSUM Square Result**



**Table 4: Structural break dates and coefficients**

	Break dates	Coefficients
JSE	3rd Quarter 2020	0.56
Nasdaq	2019; 1st Quarter of 2020 and 4th Quarter of 2021	8.74
CAC 40	2019 and 1st Quarter of 2020	0.23
DAX	2019 and 1st Quarter of 2020	0.04
Nikkei 225	4th Quarter of 2019 and 1st Quarter 2020	3.67
BIST	From the 3rd Quarter of 2018 till 2nd Quarter of 2022	2.71

Source: Author

Tables 2 and 4 as well as Figures 1 to 6 are significant in the analysis of structural breaks in this study. From Table 2, it can be gleaned that there is a significant F-statistics, log likelihood and Wald test in the Nasdaq and Nikkei 225. This implies a significant variance breaks in the Nasdaq and Nikkei 225 which signals abrupt changes in seasonal adjustments. This can also be gleaned in figures 2 and 5 in the CUSUM square test as well. Figure 6 which is the BIST 100 CUSUM Square results show deviations from in both directions although not significant at 5% but statistically significant at 10%. It is also necessary to point out that most of the deviation occurs in 2019 in figures 1 to 6 although not statistically significant in the JSE, CAC 40 and DAX at 5% and 10%. This truncation may be due to the Covid-19 pandemic which had major effect in stock markets. The break dates are also highlighted in table 4 together with their coefficients. In summarising the analysis of the output in tables 3 and 4, it will be very difficult to forecast returns in the Nasdaq and Nikkei 225 due to this significant breaks in the series. In line with this analysis, it can be suggested that there exists some form of market efficiency in the Nasdaq and Nikkei 225 due to the randomness in the returns. This finding corroborates the findings of Enow (2021) which

also support the notion that the Nasdaq and Nikkei 225 display market efficiency. However, predictions in the JSE, CAC 40 and DAX may well materialised due to the absence of significant structural breaks and investors can take advantage of price clustering (Enow, 2022).

## **Conclusion**

The aim of this study was to empirically explore structural breaks in financial market returns using the most recent 5 years as the sample period. This time frame is important because it includes periods of financial distress which was the Covid -19 pandemic. From these findings, it can be observed that structural breaks vary across markets. More specifically, the returns in Nasdaq and Nikkei 225 experienced significant breaks at 5% and 10% respectively. With this knowledge, predictions about future returns and active management may have no bearings in the Nasdaq and Nikkei 225. Consequently, we expect to see persistent volatility in the Nasdaq and Nikkei 225 due to long range dependence. The VIX volatility index also forecasts significant volatility persistence in the United States markets. Analysts and market participants may therefore find it very difficult to forecast returns in the Nasdaq and Nikkei 225 respectively together with difficult monetary policy decisions.

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## THE RUSSIA-UKRAINE CONFLICT: EFFECTS ON THE ECONOMY OF THE NIGERIAN STATE

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**Abstract:** *The interdependent nature of contemporary global economic system is such that any distortion in any part of the global system is capable of triggering an immediate impact or effect on the political cum economic systems of countries around the world. This is the very nature of modern globalized world that is highly interconnected in a whole lot of ways. It is only natural therefore that, the ongoing conflict between Russia and Ukraine would likely impact on the global economic system. Accordingly, this paper examines how the conflict between Russia and Ukraine has impacted Nigeria's economy. The study adopted the qualitative research method. The study reveals that, while the effects of the conflict have been devastating to Russia's economy, the effects of the conflict are also now being felt by Nigeria and the rest of the global system; as inflation is rapidly rising as a result of the rapid rise in oil and natural gas prices, food prices is also on the rise in the world economies including Nigeria. Increased volatility, erratic stock swings, supply chain disruptions, rising utility costs, and decreased investment as a result of political risks and economic barriers will hurt household consumption. The study suggests, among other things that, policymakers in Nigeria and around the world must therefore seek alternative means of survival by looking inwards for the cultivation of her food supplies and other manufactured goods.*

**Keywords:** *Russia, Ukraine, conflict, sanctions, invasion, economic, impact, economy, Nigeria.*

### Introduction

In the modern world system, it is obligatory for state actors to maintain and work for the peace and tranquility of the international system, especially by virtue of being members of the United Nations Organization, (UNO). This is further emphasized by the provisions of the UNO Charter as contained in Article 2(3) which specifically requires states to “settle their international disputes by peaceful means in such manner that international peace and security, and justice, are not endangered.” It is within this purview that we can ascertain the legality of the ongoing war between Russia and Ukraine. However, beyond the issues of the legality of the war is also the critical issue of the need to protect the territorial integrity of the states involved in the conflict that has brought avoidable economic challenge on the global community. Ukraine's sovereignty crisis remained unresolved despite the country's independence vote of December 1991, owing to Russia's longstanding and public opposition (Dragneva-Lewers & Wolczuk, 2016). As the socialist state of the former Soviet Union (otherwise known as Union of Socialist Soviet Republic, USSR)

disintegrated into 15 different satellite republics in Eastern Europe gradually assimilated into contentious Western organizations such as the European Union and NATO. Russia, on the other hand, was staunchly opposed to both Ukrainian Westernization and the Maiden Revolution's deposition of the democratically elected Yanukovich regime (Pabriks & Kudors, 2015). Russia's hostility toward Ukraine has been repeatedly emphasized by the West (Charap & Darden, 2014). The divide was exceptional since Russia viewed Ukraine as essential (Dragneva-Lewers & Wolczuk, 2016). The connection between Ukraine and Russia, according to a number of prominent scholars needed to be carefully considered, particularly from the Ukrainian perspective (Sol'anyk, 2001). Since the fall of the Soviet Union, the relationship between Ukraine and Russia has been characterized by anomalies, insecurity, and conflict (Kyiv and Moscow disagreement). The relationship between Ukraine and Russia has been strained by a number of issues, including the formal disposal of Soviet Union assets and debt, Ukraine's sizable energy debt, a possible NATO expansion to the east, border demarcation between the two countries, and the situation of Ukraine's Russian minority (Sol'anyk, 2001).

In the late 2013, protests in Ukraine over the government's unwillingness to sign a new agreement with the EU attracted international attention, but they also posed serious challenges to the nation's statehood with increasing domestic unrest (Dragneva-Lewers & Wolczuk, 2016). President Yanukovich fled Ukraine as a result of the demonstration, and Russia also invaded Crimea and supported separatist organizations in eastern Ukraine in an effort to defend the ethnic Russian minority (Korovkin & Makarin, 2019). President Viktor Yanukovich, a Russian supporter, was removed from office as a result of the 2014 Ukrainian conflict. The interim government, which was pro-western at the time, also signed a trade agreement with the EU in February as a first step toward the country's membership. The Minsk Agreement was ratified by Russia, Ukraine, France, and Germany in 2014 and 2015. In April 2019, former comedian Volodymyr Zelensky won the election for President of Ukraine (Bigg, 2022). In January 2021, President Zelensky submitted an application to join NATO; this did not go down well with Russia as joining NATO simply brings the west and particularly the United States of America to her neighbourhood and this poses grave danger to Russia's national security. This prompted Russia to hold a training exercise close to the Ukrainian border. As a result, hostilities between the West, Russia, and Ukraine have increased. On February 24, 2022, Russia invaded Ukraine and began special military operations. Russia has been hit with severe financial sanctions as a result of the recent offensive by Ukraine's Western sponsors, including restrictions on the Russian central bank and the expulsion of significant institutions from the global payment system (Aloisi & Daniel, 2022). Due to the 2022 war on Ukraine and the severe economic sanctions imposed on that nation, Russia, under the leadership of President Vladimir Putin, is currently experiencing tremendous economic consequences. The consequences are also threatening the global economy, sending financial markets into a tailspin and making everyone's lives more dangerous (Wiseman, 2022). Oil, natural gas, coal, wheat, and other commodities are major international exports from Russia and Ukraine. Both countries produce 70% of the world's neon, a critical component in the production of semiconductors. This, combined with the fact that countries, particularly automakers, are already facing a computer chip shortage, has sparked concern. Furthermore, Zandi notes that both countries control 30% of the world's palladium supply, which is used in automobiles, mobile phones, and dental fillings, and 13% of the world's titanium supply, which is used to manufacture passenger

jets. These figures demonstrate the impact of the conflict on the global supply chain (Wiseman, 2022). The uncertainty caused by these wars and the onslaught of sanctions would dampen global equity market prospects and slow the rate of global economic recovery. Furthermore, the conflict has disrupted global trade, investments, and the economy. Russia's President has also used ominous language about using nuclear weapons. As a result, the global economy will be more ambiguous and disrupted. The crisis has shown how dependent Nigeria is on the outside world for survival, as has every unanticipated event that has an impact on the nation. It's time to take a good, hard look in the mirror and put a result-driven diversification plan in place. The most popular pastry in Nigeria, bread, has already been named as a potential requirement that could be phased out over the next months. Nigerians can take advantage of this crisis to learn more about global power dynamics. As conflict-torn countries such as Russia and Ukraine grapple with existential issues, it has become clear that state actors are more concerned with their own interests than the welfare of their citizens. Despite the European Union's restrictions on Russian exports, several EU member countries continue to rely on Russia for food, gas, and oil. The European Union's sanctions against Russia are hypocritical because the EU member's reliance on Russia supplies for survival.

Furthermore, nations that have imposed severe financial sanctions on Russia, such as the United States, Canada, the United Kingdom, and the European Union, are closely monitoring the effects of the ongoing unrest in Russia on those nations. Beyond the economic related issues in the crisis is also the impact of the conflict on the sports industry. The sports industry have been negatively affected by the conflict as the football league, among others has halted especially in Ukraine since the conflict started. The sports industry has enormous economic value such that also creates wealth in every clime, (Efebeh, 2020a). This study's goal is to compile the most updated information on the impact of the Russian-Ukrainian conflict on the Nigerian economy right now.

## **Literature Review**

Russia is the world's third largest producer of natural gas and oil, as well as a top five producer of steel, nickel, and aluminum. Furthermore, it exports the most wheat in the world (almost 20 percent of global trade demand). Ukraine, on the other hand, is the world's sixth-largest corn producer, seventh-largest wheat producer, first in sunflowers, and a major sugar beet, barley, soy, and rapeseed producer. Global financial markets crashed the day after the invasion, and metal, food, and natural gas prices all skyrocketed. Brent oil prices just crossed \$100 per barrel for the first time since 2014, and on March 4, TTF gas prices in Europe reached an all-time high of EUR 192. Commodity prices are likely to stay high for an extended period of time as the war intensifies. The likelihood of long-term high inflation, stagflation, and societal instability consequently rises in both developed and developing countries (Malyarenko & Wolff, 2018). Early economic data show some significant movement in global economic statistics as a result of Russia's invasion of Ukraine, though the full economic consequences may not be known until the situation is resolved. The figures show an increase in the global PMI as well as the price of food and food ingredients. On the day of the invasion, the global stock market index fell. In the month of the invasion, the Eurozone manufacturing purchasing managers' index (PMI) fell. Furthermore, the scarcity of energy and fuel supplies during the invasion month caused the

consumer price indexes transportation component to rise, raising the cost of gasoline for intra-Eurozone transportation. The invasion had a greater impact on Ukraine than on Russia or the entire Eurozone. Throughout the invasion, core consumer prices in Ukraine and the Eurozone were inextricably linked. Food inflation in Russia and the Eurozone had a significant correlation. During the invasion month, the world food price index, world oil price index, world dairy price index, and world cereals price index all have positive and strong correlations.

Existing research investigates the consequences of the 2014 Ukraine-Russia crisis. According to Shelest (2015), the winter 2014 protests in Ukraine resulted in Russia's annexation of Crimea. Ukraine saw the conflict as one between Russia and Ukraine. Meanwhile, Russia interpreted the crisis as a clash between Russia and the West, claiming that the crisis was caused by NATO's desire to expand into a region where Russia has strong interests. According to Samokhvalov (2015), the four main ways that the Ukrainian political class, business elites, and greater society influence the conflict are internal political practices, economic international politics, and ideological dimension. Hoffmann and Neuenkirch (2017) examined how the pro-Russian violence affects Russian and Ukrainian stock returns throughout the period of November 21, 2013 to September 29, 2014. They discovered that the conflict had a negative impact on stock returns in Russia and Ukraine. In order to address all of its economic and social issues, Ukraine requires a comprehensive strategy; claim Stukalo and Simakhova (2018). According to Wang (2015), the country's populace stayed cohesive and its politics remained stable despite the United States and Europe imposing sanctions on Russia, the 2014 Ukraine crisis, and Russia's annexation of Crimea. The 2019 study by Liefert, Liefert, Seeley, and Lee looked at the effects of Russia's economic crisis and the ban on imports of agricultural products from the United States and other Western countries that went into effect in 2014. They demonstrate how the import ban affected Russian consumers by lowering imports of food and agriculture, sharply raising food costs, and lowering consumption. On the other hand, the import prohibition had little impact on the availability of basic foods in Russia. Contrarily, the import embargo boosted domestic agricultural production, providing food security during the ban. According to Dreger, Kholodilin, Ulbricht, and Fidrmuc (2016), the 2014 conflict between Russia and Ukraine caused the Russian ruble to lose 50% of its value in relation to the US dollar. Havlik (2014) estimates that the conflict cost Russia one percent of its GDP between 2014 and 2016 because of elevated investment risks. Numerous factors can be attributed to Russia's invasion of Ukraine. There is a pro-Russian justification for the invasion. The invasion could have also happened for pro-Western or Western reasons. The pro-Russian justification for the invasion of Ukraine is that, it is under Western control, that Ukraine is committing genocide against its own people, and that Ukraine is using its military to repress citizens in separatist regions that support Russia's government. Furthermore, the Russian government claimed that Ukraine's desire to join NATO poses an existential threat to the Russian state and indeed the Russian people, as this would enable NATO to expand eastward and draw closer to its border, thereby putting Russia national security in danger; which will facilitate Western infiltration into Russia and undermine its security. These two issues, according to Russia, prompted its decision to intervene militarily in Ukraine. The pro-western Ukrainian government of Petro Poroshenko was deposed, a new government was installed, and a peace treaty was signed with the new government. However, because Ukraine refused to negotiate, the Russian government

claimed that the invasion was the least risky option. There is also a Peace Agreement between Russia and Ukraine that forbids the state of Ukraine from joining NATO or the European Union, to this the government of Zelensky has set aside and opted to join both the EU and NATO. It can be argued that Russia feels threatened by Ukraine's desire to becoming a democratic country free of Russian influence with the potential to join NATO and the European Union. Russia disagrees with Ukraine's determination to accept Western democracy and alliance because Russia's national security may be jeopardized by Ukraine's Western affiliation with the European Union and NATO. Russia allegedly launched a special military operation in Ukraine to destabilize the Ukrainian president and the current government in Kyiv and install a new pro-Russian administration. This is because several Asia-Pacific countries are net energy importers, with China, Japan, India, South Korea, Taiwan, and Thailand leading the pack, higher import prices, particularly for energy, was felt almost immediately across the region. Because North American trade and financial links with Russia and Ukraine are relatively limited, the conflict's effects have mostly been felt through the price channel and the stalling of European GDP. Despite the possibility of slower economic growth and higher inflation, recent geopolitical developments are unlikely to disrupt North American monetary policy at this time (International Monetary Fund, 2022). Due to the Russian invasion of Ukraine, Nigeria is finding it more challenging to import wheat, which is needed to make a variety of food supplies such as bread, noodles, pasta, cakes, and more from that region and this have caused serious cost implications for such products. Due to Russia's military action in Ukraine, wheat prices have increased globally, pushing up already high food prices. 14 percent of the world's wheat production and 29 percent of the wheat exported worldwide are produced by Russia and Ukraine. Ukraine is one of the top five exporters of wheat to Russia, which is currently the largest wheat exporter in the world along with Egypt, Bangladesh, and Turkey.

### **Theoretical framework**

The theoretical underpinnings of this research are the Social Contract and Interest Group Theories. Some of the most important figures in modern political philosophy, such as Thomas Hobbes (famous for his book *Leviathan*), John Locke (famous for his book *Two Treatises of Government*), and Jean Jacques Rousseau (famous for his book *The Social Contract*), developed a long-standing political theory or philosophy known as The Social Contract (Mbah, 2021a). Thomas Hobbes describes the State of Nature in his book *Leviathan* as a chaotic, lawless society in which people always live in "fear of death," and as a result, they engage into a Social Contract as a means of achieving peace (preservation of lives and property). Citizens (subjects) freely cede all of their freedom and rights to a sovereign power in exchange for that power ensuring their security in order to defend their lives and properties (Mbah, 2021a). John Locke does not, however, share Thomas Hobbes' dismal view of the State of Nature. The State of Nature, in Locke's opinion, is a more tranquil setting since there are no organized institutions to maintain law and order in the event of a conflict. The Social Contract is required to assure established governmental institutions (legislative) tasked with maintaining peace and order. According to Locke's Social Contract, legislators are trustees who are obligated to uphold the interests of the people who elected them (Ebenstein & Ebenstein, 2000: 430). However, the State of Nature by Jean Jacques Rousseau and Locke is neither as pessimistic nor optimistic. Everyone in



his State of Nature pursues their own interests until they realize they are unsuccessful, necessitating the creation of a Social Contract. Contrary to Locke, Rousseau believes that the Social Contract requires individuals to cede their rights and freedoms to the community (social organizations), which they expect to uphold those rights and freedoms ( Elahi, 2014; Ebenstein & Ebenstein, 2000 cited in Mbah, 2021a). Simply put, citizens of all countries enter into a Social Contract when they cede some or all of their rights to the government and its institutions in exchange for rules and regulations that protect lives and properties. This explains Russia and Ukraine's long-standing hostility, as each side seeks to protect the interests of its own constituents (Social Contract). While the 2014 Russia-Ukraine conflict was not an ethnic conflict in and of itself, nationalism was a significant contributory factor in fueling the conflict and remains a relevant obstacle to its resolution (Harris, 2020). Russia claims that this conflict is about its national defense, military exercises, weapons systems, and security agreements.

Aside from viewing the Russia-Ukraine conflict through the lenses of the Social Contract theory, the ongoing conflict can be examined through the lenses of the system theory. The systems theory was borrowed from Biology and Engineering sciences; its emphasis is on the workings mechanism of a set-up for goal attainment. System theory helps in determining a political system's capacity for maintain its equilibrium in the face of stress and for adapting to changes that are forced internally and externally. The theory assumes further that, all existing political units interact with one another according to some regular and observable pattern of relationship. A system is an autonomous unit of complex elements which interacts and capable of adapting within itself, with each set of element being interdependent. These elements are individual, association, organizations, nations and states. It is this that Easton (1953) had in mind when he described political system as existing with other systems as physical, biological, social, and or psychology etc., which affect it and in turn affected by the political system, through continuous transaction and exchanges. That the functioning of the political system evolves from the environment and they evoke responses from it. The output could be demands that values be allocated in a particular way or they could be supports, that is, expression of approval for particular decisions. The inputs from the environment undergo a conversion process within the political system and come out as outputs, which are usually authoritative decision such as government policies and decisions. These authoritative outputs usually affect the environment as outcomes and in turn – excite some form of feedback, that is, changes in intensity and volume of demands and support from the environment. The behaviour of each state depends upon the behaviors of other states, or in terms of gamesmanship, every player's move or 'strategy' ( the set of moves he calculates he must make in order to win), depends on the moves of every other players in the international political environment. A system then, is an abstract way of looking at a part of reality for the purposes of analysis; hence we speak of a human being's, in which the parts or subsystems.

It follows from the above analysis that, a country is a subsystem, whatever her behaviour; it either destabilizes or maintains the global equilibrium. When it destabilizes, conflict becomes imminent such as the world now experiences between Russia and Ukraine. The conflict between the duos has generated adverse economic hardship across the world by serious food shortages, rising cost of gas across Europe and energy crises across the world; aptly justifying the systems theory which sees the entire global system as made up of units with event in any of the units having effect or impact on the entire system.

## **The Impact of the Russia-Ukraine Conflict on the global economy**

The reality of contemporary global economic relations is that the economies of countries around the world are highly interdependent on one another courtesy of information revolution. In such a state of interconnectedness, it is only natural that a conflict at one end would naturally have domino effect on the entire system not matter how small the conflict might be. Thus, although Russia's attack on Ukraine occurs thousands of miles away, yet the economic impact is felt across the globe. As Egan (2022) posits the impact is felt by millions of American households because the global economy and financial markets are interconnected. According to Smialek and Swanson (2022), a potential consequence of the Russian-Ukrainian conflict could be an increase in inflation due to an increase in the prices of oil and food globally, which would increase uncertainty in the United States as the average American household will bear the burden of Vladimir Putin's invasion of Ukraine. They argue that, while the United States imports very little from Russia (the world's largest wheat exporter), "commodities crunch caused by a conflict could have knock-on effects that at least temporarily drive up prices for raw materials and finished goods at a time when much of the world, including the United States, is experiencing rapid inflation. In other words, while the United States imports a small amount of oil from Russia in comparison to Europe, the energy commodity market is global, and a change in the price of oil in one part of the world will eventually affect the price of oil everywhere, including the United States. This report also reveals that such global unrest may prompt Americans to reduce consumption and other diverse economic activities, potentially impeding the Federal Reserve's plans to raise interest rates. (Mbah & Wasum, 2022).

The war between Russia and Ukraine has caused the price of oil to "hit an eight-year high." If the tension worsens or if US policymakers pursue conflicting "another round" of sanctions against Russia, as experts predicts, the price of oil could continue to rise even higher than anticipated. The world economy will implode if Russia's economy does. In a same line, JP Morgan predicts that this conflict will "easily" cause the price of oil to increase to \$120 per barrel (Egan, 2022). While economists worry that the conflict would restrict the amount of money available to US consumers for discretionary expenditure because of rises in commodities prices, Wall Street experts anticipate continued volatility in US stock indices (Mbah & Wasum, 2022). RSM claims that if oil prices reach \$110, year-over-year inflation might exceed 10%, which hasn't happened since inflation peaked at 10% in 1981. In addition, RSM claims that inflation is the "greatest concern facing the US economy" (Egan, 2022). Fears of inflation in the United States are being fueled by a potential scarcity of essential metals such as nickel, aluminum, and palladium in the world supply chain (Cohen & Ewing, 2022).

Similar to many other Western nations, the United Kingdom has been dealing with high and rising inflation, with prices rising alarmingly during the past 30 years. According to experts, Russia's ongoing aggression against Ukraine has led to greater inflationary pressures and which has forced the Bank of England to hike interest rates in reaction (United Kingdom Parliament, 2022). Although Russia exports a significant amount of gas to several European countries, unlike the United States, it does not export gas to the United Kingdom. However, the United Kingdom has also been significantly impacted by the sharp increase in global oil prices, which has led to a great deal of uncertainty. Analysts warn that yearly household fuel consumption might top £3,000 per year, (Jones,2022). The fact

that Russia and Ukraine are both large producers of a variety of agricultural items, including wheat, raises additional concerns about the rise in food costs, which might put more strain on UK household and company budgets (United Kingdom Parliament, 2022). Despite the fact that 90% of the UK's wheat is produced domestically, farmers may have to pay more for fertilizer, one of Russia's biggest exports (Jones, 2022), and two-thirds of the ammonium nitrate fertilizers used by farmers globally are Russian, as British Meat Processors' CEO, Nick Allen, noted (Lanktree, 2022). Chris Rogers, a well-known supply chain economist, predicts that supply chain cost inflation will be this conflict's biggest economic impact on the UK and Europe as a whole (Lanktree, 2022).

Europe, which depends on Russian oil and gas, seems to be the region most exposed to the effects of this conflict. It is impossible to replace all Russian natural gas supplies to Europe in the short to medium term, and inflation will be significantly impacted by present price levels. According to experts, the February 2022 Russian invasion on Ukraine will cause higher inflation and supply chain disruption in Europe, the United Kingdom, and many other nations around the world. If Russia's exports decline, Saudi Arabia's refusal to release more oil supplies to back up those of Russia would have a huge impact on the price of the commodity globally (Lanktree, 2022). The majority of public discourse on the conflict has portrayed European governments as divided, weak, and absent, which, according to a report from the European Council on Foreign Relations in 2022, would significantly alter Europeans' perceptions of their safety in the event that Russia attacked Ukraine ( Krastev & Leonard, 2022). In addition to being the largest producer of natural gas and oil in the world, Russia is a significant supplier to Europe (Bhattarai et al., 2022). The present Russian invasion on Ukraine may hamper EU economic development due to rising energy prices and lowered business confidence, but top EU financial officials claimed that the EU is "ready for it" (Thomas & Strupczewski, 2022). These authors also suggest that, despite the consequences to Russia, the EU's main energy supplier may respond to EU sanctions by limiting oil, gas, and coal deliveries to the EU, which would raise commodities prices, create uncertainty, and weaken consumption. About 25% of the oil and 40% of the natural gas that European nations (buy) are dependent on Russia (Wiseman, 2022).

What we do know is that the two primary ways that the Eurozone economy will be impacted are through the channels of energy, prices, and confidence or uncertainty; less so through the channel of trade, which is rather small between Russia and the euro zone. A drag on investment and consumption, persistent uncertainty will almost definitely stifle growth (Thomas & Strupczewski, 2022). Due to Russia's recent invasion on Ukraine, natural gas costs in Europe are around six times more than they were at the beginning of 2022. This is because the attack caused a 20 percent spike in natural gas prices, rising inflation, and soaring energy bills (Wiseman, 2022). The impact of COVID-19, supply chain constraints, and rising energy prices (inflation), according to the European Commission, could lower the economic growth curve for all EU member states using the euro to 4.0 percent by the end of 2022, down from the 4.3 percent forecast in November 2021. This most recent forecast is even more uncertain in light of Russia's attack on Ukraine (Thomas & Strupczewski, 2022). In the same light, the chief economist at Berenberg bank voiced, the drag from higher prices and the negative confidence effect may lower real GDP growth in the Eurozone from 4.3% to 3.7% for 2022 (Wiseman, 2022).

Canada was the first Western nation to recognize Ukraine's independence on December 2, 1992, and the two nations have kept up a cordial bilateral relationship ever since. Based on

this connection, Canada has given Ukraine more than \$890 million in aid since January 2014 in various forms. The probable economic consequences of Russia attacking Ukraine in 2022 on Canada worries experts (inflation cost of food, and immigration); the Canadian government, under the leadership of Prime Minister Justin Trudeau, is 'prioritizing immigration applications,' according to Neustaeter (2022), 1.3 million Ukrainians have immigrated to Canada, making it the country with the most Ukrainian immigrants outside of Russia. Accordingly, there are worries as to how this conflict may affect Canada's already-fragile supply chain, particularly in terms of food pricing (Mbah & Wasum, 2022). In the days following the attack, the unpredictability brought on by conflict prompted financial tradings to fall and markets to fluctuate drastically, causing panic in the global financial market. As an illustration, the conflict caused the Canadian dollar to trade for 77.93 cents US on Thursday as opposed to 78.63 cents US on Wednesday (Neustaeter, 2022). Given that Canada imports around \$550 million worth of oil from Russia each year, as reported by the Canadian Association of Petroleum Producers, experts anticipate that Canadians should prepare for a major increase in the price of gas. The head of the Canada-Ukraine Chamber of Commerce voiced concern about how the conflict might affect business ties with Canada, noting that it would be challenging to attract investors because of the political risk involved in doing business there. Investors are closely monitoring the situation, particularly in light of the widespread Western warnings against going to Ukraine (Bharti, 2022).

Operations across a range of businesses have been impacted by the disruption of global supply networks caused by the Russian invasion of Ukraine. The Russian export embargo and reciprocal ban on foreign imports, as well as Russia's refusal to allow foreign cargoes to pass through its airspace and waterways throughout the conflict, have the potential to disrupt the global supply chain, resulting in shortages and higher import prices; businesses have projected that the disruption brought on by trade restrictions and cross-border blockades will lead to supply hoarding and higher prices. Additionally, there will be disruptions to cargo flow and border operations as a result of restrictions on commercial flights near the Ukraine-Russian border and increased security checks at refugee camps in surrounding nations. This is because border officials may stop or delay cross-border supplies and goods while they attend to refugees first. This will make the global supply chain even more disrupted and drive up import prices. The rise in commodity prices, which will worsen already existing inflationary pressures, will be the main economic impact on the rest of the world. Net importers of energy and food products will be disproportionately impacted, as is always the case when commodity prices rise, with the prospect of significant supply disruptions if the conflict intensifies.

### **The Implication of Russia-Ukraine Conflict on Nigerian Economy**

The global economy is still reeling in the effects of the COVID-19 epidemic and the various lockdown that followed, thus, the Russia's invasion of Ukraine has therefore exacerbated the situation by driving up commodity prices and choking up the food supply chains across the world, (Efebeh, 2020b). Russia is known as the world's largest wheat exporter, along with Ukraine, and the two countries export roughly a quarter of the entire commodity (Cohen & Ewing, 2022). Russia, on the other hand, remains a significant player in many areas of the global economy. Russia's oil supplies, as the world's second-largest supplier of

crude oil, play a significant role in determining crude oil prices. It also claims to be one of the world's largest sources of clean energy and natural gas. The Russian Federation is the European Union's largest exporter of oil, natural gas and hard coal, and it supplies a significant amount of fossil fuels. As a result of the conflict, the majority of European economies have withdrawn from all commercial deals with Russia, thereby causing a major stair in the Russian economy; forcing Moscow to respond by halting the supply of gas to Europe. As the continent's top oil producer, this event would undoubtedly have a significant impact on the Nigerian economy; because Africa and indeed Nigeria depends on Ukraine and to some extent Russia for the supply of grains and thus it would be the hardest hit by the fall out of the war. The Russian invasion of Ukraine has led Western nations to impose a number of sanctions on Russia, including the suspension of trade agreements and other forms of economic isolation. Russia's invasion has a wide-ranging economic impact, especially as the conflict persists. These include rising import and subsidy costs for gasoline, an increase in gasoline smuggling, and rising energy prices (including those for diesel, jet fuel, kerosene, and gas). Significant macroeconomic effects include the fiscal deficit, debt levels, debt service payments, money supply growth, exchange rate depreciation, and higher inflationary pressures (Ozili, 2022).

Despite its distance from the conflict zone, Nigeria is not immune to its consequences due to Russia's global economic influence and Nigeria's reliance on international trade and imports. As a result, it is critical to emphasize the economic impact of the ongoing conflict on Nigeria. Following Russia's attack on Ukraine, crude oil prices have skyrocketed, with Brent trading above \$100 per barrel and Bonny Light trading at \$110. Nigeria, which imports refined petroleum products, is bearing the brunt of the increase in crude oil prices, as the cost of diesel, which is not subsidized in the country, has risen to more than N800 per litre and is already being sold at certain stations for more than N830. Owing to fragile state of power generation and distribution in Nigeria, there has been a forced increase in demand for diesel in the local market, causing the landing cost of refined products to skyrocket. Given that the majority of the country's businesses rely on generators for power, the rise in fuel prices has become a significant impediment to doing business there. In a related vein, Nigeria is presently dealing with a fuel shortage as a possible result of the conflict, prices of PMS have risen from N175 per litre to between N450 to N500 per litre as at January 29, 2023, implying over 300 percent increase in just a few months; with its attendant ripple effect on prices of goods and services across the country. In the upcoming months, this is probably going to get worse as ships bringing petroleum products into the nation can run into problems; although the petroleum industry in Nigeria is heavily laden with corruption, (Efebeh, 2018), but the latest crisis has added a new twist to it all. In most areas of Nigeria, the price of transportation has increased in step with the price of petroleum products (Maijama'a & Musa, 2022).

In Nigeria, particularly in Lagos State, the cost of ride-hailing services has increased dramatically during the past six months. Given the amount of traffic that wreaks daily havoc on the state, higher transportation expenditures are the last thing Lagos residents' desire. In the specific scenario of Nigeria, increased oil prices in the international market have resulted in higher petroleum product and subsidy expenditures, which have then increased the cost of borrowing for the government and cause the fiscal deficit to exceed projections. This has made an already risky financial situation worse. The Russia-Ukraine conflict has impact on the Federation Account because the Nigeria National Petroleum

Company (NNPC) Ltd will not contribute as much money due to an increase in subsidy commitment. This could have an impact on how funding is distributed to different levels of government, particularly in states that rely heavily on monthly allocations from the Federation Account.

Due to the sensitive nature global oil market which has seen the prices of oil responding with astronomical increase in the prices of jet fuel; the cost of air travel has also increased dramatically during the past several weeks. The airline industry in the country has been forced to reduce the frequency of its operations. Airlines' prices increased by at least 100% in February, with an economy one-way ticket costing more than N50,000. Nigerians who can afford it will have to pay much more for both domestic and international travel as airline costs rise. People who work in industrial areas such as Lagos State, Port Harcourt, and others but live in other states are also affected by this because they will have to reduce the frequency of their travels. Durum wheat, a basic crop predominantly imported by Nigeria that has undergone astronomical price increase since the invasion started, is one of the food staples that Russia exports in large quantities, just like the crude oil market does (Maijama'a & Musa, 2022). The war between Russia and Ukraine has caused wheat prices to reach their highest point in a week. Nigeria, which consumes wheat as the third-most other grain in the nation, is a significant importer of wheat products.

According to Nigeria Bureau of Statistics (2022), Nigeria imported more durum wheat worth over N128.1 billion in the first nine months of 2021 than it did in the entire year of 2020. Since Nigeria relies heavily on imports to meet domestic demand and already struggles with high inflation and disruptions in the food supply chain, the rise in commodity prices puts further pressure on the local market. The conflict has also disrupted wheat supply on the global market. As a result, there is a chance that the price of wheat will rise, affecting the cost of flour and, as a result, the price of bread and other baked goods (Ozili, 2022). Expectedly, the disruption in the wheat supply accessioned by the Russian/Ukraine conflict has resulted in astronomical rise in the prices of flour and thus of bread and other baked goods in Nigeria. Prices of the big size of bread that used to sell for N450 and the small size for N200, rose to N1,200 to N700 respectively, since the conflict started between the duo in February of 2022. Nigeria already spends more than half of its budget on food, and if food prices continue to rise at the unprecedented rates they are, Nigerians' purchasing power will decrease.

The central bank often intervenes in the market to fix currency rates in Nigeria's controlled floating exchange rate regime. However, a sizable amount of cash is exchanged in an unreported and in-monitorable manner of the black market. Given that Nigerians would obtain foreign exchange from any source in order to meet their commercial obligations, Nigeria is vulnerable to further naira depreciation. Inflationary pressures are also affecting developed economies, with the US inflation rate reaching a 40-year high in February 2022. Given Nigerians' proclivity for imports, we would simply be introducing foreign inflation into an already sick economy. Nigeria's foreign exchange liquidity will be strained further as a result of a lack of FPIs and FDIs, as well as a drop in Diasporas remittances from Nigerians living in Russia, Ukraine, and other nearby countries, leaving the country vulnerable to further depreciation. It would be unfavorable if a lack of foreign capital reversed the current account's and world trade balance's upward trend. It is also worth noting that thousands of Nigerians have joined the thousands of Nigerian youth who have

remained at home as a result of the months-long ASUU strike and the inability to continue attending lectures in Ukraine as a result of the disruption.

### **Concluding Remarks**

The paper examined how the conflict between Russia and Ukraine has affected other countries of the world that has commercial and other sundry relationship with both countries in the conflict. The outcome has brought to the fore how conflict between two nations at one end of the world, could have almost spontaneous impact on the rest of the world in the contemporary globalized world system that is highly interconnected and interdependent in nature, (Efebeh & Okereka, 2020). Recent studies have focused on the European Union, the United States, Canada, and the United Kingdom, all of which have imposed severe economic sanctions on Russia over her invasion of Ukraine. However, this study focuses on how the Russian and Ukrainian crises have affected the Nigerian economy. Russia's 'retaliatory' actions are likely to last for many years. Food and energy importers in Africa will continue to face challenges. As the conflict ranges, the economies of Nigeria and the world is encountering difficulties and downside risks in the form of increased energy costs, increased fuel imports and subsidy bills, government fiscal operations, the smuggling of petroleum products, decreased wheat export from the region, and effects on regional and international trade. The economic impact of the Russian invasion of Ukraine, if it continues, will be extensive and diverse. Significant macroeconomic effects include a rise in the budget deficit, a rise in debt levels, a rise in debt servicing costs, a rise in the money supply, a decline in the value of the currency, and a rise in inflationary pressures in most African countries, particularly Nigeria. The state of Ukraine has put so measures in place to help the global community especially African countries affected by the restrictions on exports of grain from the region by setting up and appointing some individuals including Obiageli Ezekwesili as "Ambassadors of Grain from Ukraine". This is a programme initiated by the Ukraine government to assist countries suffering from severe food shortage caused by the war with Russia.

In situations like this, where key crisis actors are requesting assistance, Nigeria should avoid taking sides. Smear campaigns and sympathy-inducing propaganda mills must clash with our leaders and the general public. Nigerians should remember that the conflict is a Western construct, and that, despite the horrific existential plight of the victims, it is a European tragedy. Africans should be aware that the policies underlying this conflict are detrimental to the interests of Africans, particularly Nigeria. Nigerians do not need to be taught that they are on their own in difficult times, as racist treatment of Africans has demonstrated. As a result, Nigerian policymakers must begin discussing alternative means of subsistence in the event that Russia decides to respond by punishing the rest of the world through export restrictions. They should also, if possible, support domestic production of such essential commodities imported from Russia and even from Ukraine.

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## TERTIARY EDUCATION TRUST FUND INTERVENTION IN ACADEMIC STAFF TRAINING IN NIGERIAN UNIVERSITIES

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**Abstract:** *The study investigated the impact of TETFund intervention in academic staff training and development on academic staff performance in South East Public Universities. The study adopted Ex-post facto research design. The study used annual time series data obtained from secondary sources. Data for the study was obtained from secondary sources from the Education Support Service, TETFund Abuja. Data analysis was done using R<sup>2</sup> software with the aid of models which were estimated by the ordinary least square method. The statistical result of the study indicated that there is significant impact of Tertiary Education Trust Fund (TETFund) intervention in academic staff training and development on effective teaching in South East Public Universities at ( $P < 0.01$ ). Secondly, the study revealed that Tertiary Education Tax Fund (TETFund) intervention in human capacity building has positive impact on the competence of academic staff of the beneficiary's universities. The study concludes that academic staffs are likely to acquire more knowledge and skills and the capacity to face teaching and research competitively. Implication of the finding indicated that when staffs are not exposed to the staff training and development, it will affect performance and may jeopardize professional skills, innovation and knowledge in the universities. The study recommended that TETFund and Universities are encouraged to provide adequate state of art facilities that will propel creativity and innovation in modern teaching and research skills of the beneficiaries.*

### **Background to the Study**

The Tertiary Education Trust Fund (TETFUND) was established by an Act of the National Assembly in June 2011. The Act replaced the Education Tax Fund Act Cap, which was encapsulated in E4 Laws of the Federation of Nigeria 2004 and Education Tax Fund (Amendment) Act No 17, 2003. The TETFund was set up to administer and disburse education tax collections to Public tertiary educational institutions in Nigeria defined under the Act as universities, polytechnics and colleges of education (TETFUND, 2017). It is an intervention agency set up to provide auxiliary support to public tertiary institutions and the mandate of the Fund as encapsulated in section 6 of the TETFund Act are: “to provide funding for the provision and maintenance of the following: (a) Essential physical infrastructure for teaching and learning; (b) Instructional material and equipment; (c) Research and publication; (d) Academic Staff Training and Development; and (e) Any other need which, in the opinion of the Board of Trustees, is critical and essential for the improvement of quality and maintenance of standards in the higher educational institutions” (TETFUND, 2017). TETFund derives its funding from 2% education tax paid

from the assessable profit of companies registered in Nigeria. The Federal Inland Revenue Service (FIRS) assesses and collects the tax on behalf of the Agency. The enabling Act establishing the Fund prescribes the distribution of the funds in the ratio 2:1:1 respectively to Universities, Polytechnics and Colleges of Education (COEs), (TETFund, 2017).

It is worthy to note that Nigerian Universities are faced with inadequate funding which has adverse effects on research and teaching based on the quality of research which has been adjudged to be of low standard, when matched to their counterparts in other parts of the world (Ekundayo and Ajayi, 2009). UNESCO declared that for effective funding of education, 26% of the Gross Domestic Product (GDP) of each country in the world must be allocated to education. The case of Nigeria over the years portends a non-compliance with this standard. This tends to be responsible for series of industrial actions embarked upon by the Academic Staff Union of Universities (ASUU). There is decay in human and material resources in Nigerian Universities due to poor funding (Eze 2014). TETFund embarked on human capacity building for academic staff in Nigerian Universities to impact positively on their capacities and improve on the asset of the system. Poor funding, lack of infrastructure, poor capacity building and inadequate researches are capital intensive. As a result, the Universities could not provide adequately the needed fund based on their budgets and subventions that are often limited. TETFund intervention on human capacity building has improved the performance of academic staff especially in South East, Nigeria. It is evidenced that effective teaching provided students with skillful ways to explore ideas, acquire new knowledge, synthesize information, and solve problems (Akinnaso, 2012; Onwuchekwa, 2012; Hossein, Fatollah & Tohid, 2014).

Academic staff strength stand at 27,934 which is translated to students/academic staff ratio of 40:1 globally (Bamiro, 2012). The above figures show that there is poor staffing in the Universities, particularly the State Universities. The academic staff has continued to decline, due to the fact that the new universities have been poaching staff mainly from the 1<sup>st</sup> and 2<sup>nd</sup> generation Universities; while the rate of production of doctor of philosophy (Ph.D) graduates with interest in academic profession has been rather low (Bamiro, 2012). Thus, TETFund allocate fund for academic staff training and development for Nigerian Universities both locally and internationally to encourage effective teaching and competency in the country. A total of 814, junior academics have benefited from its intervention in postgraduate programmes distributed as follows: Ph.D Abroad – 307; Ph.D Local – 351; Master's Degree Abroad – 127; and Master's Degree Local – 29 and conference sponsorship which stand at 2,946 (TETFund, 2018). Available records from TETFund (2018) revealed that training and development cost N11,430,000,000.00 for the Universities in the South East Geo-Political Zone, Nigeria. The intervention effort was targeted at greater performance of academic staff in Public Universities in South East, Nigerian, to meet global standard. Training sponsored by the (TETFund) within and outside Nigeria from 2008 to date is faced with inadequate utilization of fund allocated as result of information gaps and institutional shortcoming.

Consequently, Nigeria ranked 120 out of 142 countries on the Global Innovation Index, which measured countries' innovation capabilities and how they drove economic growth and prosperity. Similarly, Nigeria was placed 140<sup>th</sup> in human capital and research; 14<sup>th</sup> under knowledge and technology and 74<sup>th</sup> under creative output (Aluko, 2012). Research attainment is determined by the number of published articles in ranked journals and conference proceedings of repute (Oloruntoba & Ajayi, 2006). At present majority of

the beneficiary institutions have allocations from the previous years for academic staff unutilized and unaccessed (Baffa, 2017). It is believed that the staff qualifications, research environment, funding, and time available to staff could predict significantly the research output by the university staff. Moreover, some graduates that are turned out from these universities can hardly demonstrate competence or communicate effectively and meaningfully (Hamisu, & Musa, 2015). They cannot defend their qualifications or degrees.

Competency required from the academic staff of South East Nigerian Universities in a rapidly changing world seems to be inadequate. There is evidence of poor output, webmetric ranking, and exchange of ideas among the peers around the globe is doubtful because of institutional shortcomings (Baffa, 2017). There is a contending issue within the Universities in South East that bothers on information gap and not meeting up with the TETFund required guideline. In spite of TETFUND intervention in human capacity on the performance of academic staff in South East Public Universities, opinions have remained divided on the quality of the output of the academic staff who have benefited from the programme. The study is motivated to address the observed problem by TETFUND intervention in Academic Staff Training and Development on Academic Staff Performance in South East Public Universities, as a result of poor funding and institutional shortcomings.

### **Statement of the Problem**

Human capacity building of academic staff of Public Universities is one of the ways employed by government, through TETFund to expose staff of its institutions to long or short term trainings with a view to improving their professional skills and enhancing their performance ability in their work places. In Nigeria, these trainings which are handled by the Tertiary Education Trust Fund (TETFund) come in the form of sponsorship to local or foreign academic studies for various postgraduate programmes.

Whereas TETFund has been on this business since coming into existence in 2008, it is however, popularly believed that the quality of academic staff, their poor performance, content delivery, teaching, research output and institutional shortcomings (Onwuchekwa, 2016; Chukwuma & Japo, 2015; Eze, 2014) are glaring indications that all is not well with the nation's Public Universities system. The failure of the nation's educational system to deliver on its set objectives, which greater blame is on the poor status of its teaching staff, attributable to decay of instructional materials and equipment, paucity of research and publications, inadequate qualified academic staff in the Universities which pose a negative impact on performance. It appears that the poor state of art facilities for teaching, research and learning in the Public Universities in South East Geo-Political Zone, Nigeria is attributable to inadequate attention to motivation and overloaded teaching and administration schedules which leave little time for research. Academic staff without adequate knowledge and skills required through training may jeopardize performance in the system. There is observable inadequate intervention utilization which is associated with information gaps and institutional shortcoming which has a negative impact on academic staff research collaboration skills and innovation.

## Objectives of the study

The broad objective of the study is to determine the impact of TETFund intervention in academic staff training and development on academic staff performance in South East Public Universities: The specific objectives therefore include:

- 1) To determine the extent to which TETFund intervention in academic staff training and development has impacted on effective teaching in South East Public Universities
- 2) To examine the extent to which variation of the cost of TETFund intervention in academic staff training and development has impacted on competence in South East Public Universities.
- 3) To establish the extent to which TETFund intervention balance from academic staff training and development impacted on the beneficiaries in South East Public Universities

## Methodology

### *Research Design*

The study adopted *ex post facto* research design. The study used annual time series data obtained from secondary sources. The choice of secondary data therefore eliminates the risk of delay or non-response from the universities which is the usual phenomenon with interviews and surveys. Given the type of data involved, the study specified and estimated a regression model using ordinary least squares (OLS) method.

### *Studied Universities*

The study covered University of Nigeria Nsukka (UNN) Nnamdi Azikiwe University, (NAU), Ebonyi State University, Abakaliki (EBSU) and Enugu State University of Science & Technology (ESUT). Abia State University (ABSU), Alex Ekwueme Federal University Ndufu Alike Ikwo (AEFUNAI), Federal University of Technology (FUTO), Imo State University (IMSU) and Michael Okpara University of Agriculture Umudike (MOUA), 2008-2018.

### *Sources of Data*

All data were sourced from Education Service Unit of TETFund and data collected were subjected to descriptive statistics analysis. The Generalized Linear Models (GLM) analysis was performed to understand the impact, variation of both training funding across universities in South East Nigeria from 2008 to 2018. Moreover, relationships among variables were investigated using the Spearman correlation matrix. To understand the impact of training on academic staff effectiveness and competences, we performed multiple regressions using the number of academic staff, cumulative payment and balance.

### *Model Specification*

$$1) Y_i = \beta_0 + \beta_1 CP + \beta_2 BA + \varepsilon \quad (1)$$

Where  $Y_i$  = Number of Academic staff,  $\beta_0$  = regression slope, CP = Cumulative payment for training, BA = Balance.

Afterwards, the paired t-test was performed to check whether the number of beneficiaries from the training was statistically different from the total number of staff across all universities.

*Method of Data Analysis*

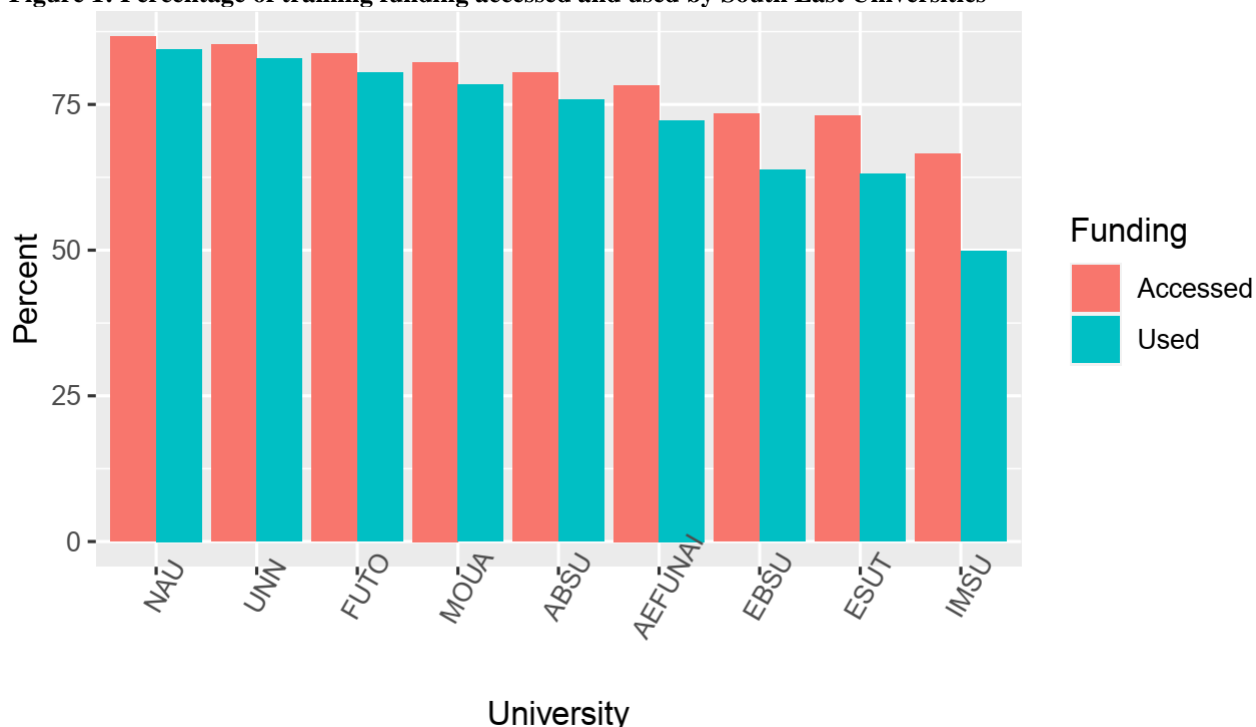
The regression models of the study expressed using the R software version 3.6 .3 (R Core Team, 2019). This software was employed to test hypotheses formulated in this study. The R software was used because of its wide variety of statistical and graphical techniques.

**Table 1: Variation of training funding on academic staff across universities from 2008-2018**

University	Allocation (N)	Cumulative Payment (N)	Balance (N)	No of academic staff
ABSU	1180000000	949917738.94	230082261.06	707e
AEFUNAI	810000000	634207006.15	175792993.85	539f
EBSU	1180000000	865921384.24	314078615.76	891d
ESUT	1180000000	862086257.50	317913742.50	970d
FUTO	1180000000	987429309.65	192570690.35	1877b
IMSU	1180000000	785739507.10	394260492.90	738e
MOUA	1180000000	970830975.78	209169024.22	997d
NAU	1180000000	1021673093.20	158326906.80	2064a
UNN	1180000000	1006928619.45	173071380.55	1260c
<b>Minimum</b>	<b>810000000</b>	<b>634207006.15</b>	<b>158326906.80</b>	<b>539</b>
<b>Maximum</b>	<b>1180000000</b>	<b>1021673093.20</b>	<b>394260492.90</b>	<b>1877</b>
<b>Mean</b>	<b>1138889000</b>	<b>898303765.78</b>	<b>240585123.11</b>	<b>1115.89</b>
<b>CV (%)</b>	<b>10.83</b>	<b>14.06</b>	<b>34.12</b>	<b>47.29</b>
<b>z-value</b>	<b>1.17ns</b>	<b>1.78ns</b>	<b>-0.54ns</b>	<b>25.97***</b>
<b>LSD</b>	<b>1064973841.00</b>	<b>992359299</b>	<b>758465900</b>	<b>114.41</b>

Table 1.1 presents results of the generalized linear model analysis on staff training. Statistically, the results revealed that there is no significant difference among universities regarding funding allocation, cumulative payments, and balance. However, the number of academic staff is significantly different across universities.

**Figure 1: Percentage of training funding accessed and used by South East Universities**



The proportion of funding accessed for staff training by universities varies between 66.59% and 86.58%. The highest value was obtained by the NAU while the lowest value was obtained with IMSU (Figure 1). Moreover, the proportion of funding used for staff training varies from 49.82% to 84.50% of the total funding accessed. NAU and UNN revealed the highest proportion of funding utilization while the lowest value was recorded at IMSU. Furthermore, the average cost per academic staff varies from 4906534.69 (N) to 11268341.10 (N) (Table 1.2).

**Table 2 TETFund Intervention in Academic Staff Training and Development in South East Public Universities from 2008 - 2018**

University	Payment used (N)	Total number of beneficiaries	Average cost (N)
ABSU	719835477.88	74	9727506.46
AEFUNAI	458414012.30	82	5590414.78
EBSU	551842768.48	86	6416776.38
ESUT	544172515.00	90	6046361.28
FUTO	794858619.30	162	4906534.69
IMSU	391479014.20	78	5018961.72
MOUA	761661951.56	97	7852185.07
NAU	863346186.40	89	9700518.95
UNN	833857238.90	74	11268341.10



## **Discussion of findings**

Table 1.1 presents results of the generalized linear model analysis on staff training. Statistically, the results revealed that there is no significant difference among universities regarding funding allocation, cumulative payments, and balance. However, the number of academic staff is significantly different across universities. Furthermore, it is equally revealed that The Spearman correlation analysis revealed that the number of academic staff is high correlated with academic training (Table 1.3). The multiple regression analysis showed the cumulative payment and available balance for staffs training have high impact on effective teaching across South East Universities in Geo-Political Zone (Table I.4). The overall finding of the study shows that there is impact of Tertiary Education Trust Fund (TETFund) intervention in academic staff training and development on effective teaching in South East Public Universities. Similarly, the result of the test of the hypotheses revealed that variation of the cost of TETFund intervention and balance from academic staff training and development has impact on competence in South East Public Universities.

Given that the coefficient of TETFund intervention in academic staff training and development on effective teaching at 0.61 (with a p-value of 0.001) which is significant, the study established that there is positive impact of TETFund intervention in Academic Staff training and development on effective teaching in South East Public Universities. Specifically, this study found that accessing the fund from TETFund has a stronger positive impact on staff training and development in the Institutions in South East Nigeria with the percentage level from different Universities have increased staff strength in irrespective of the balance unutilized. The present finding is in line with the Zabbey & Leyira (2019) that depicted positive and significant relationship between staff training which forms the theoretical backbone of the present study.

Kulkarni, (2013) corroborated the above findings that the Indian, Pakistani and Bangladesh's suggests that job training has significant effect on organizational performance. In line with the present study, Chukwuma & Japo (2015) corroborated the findings of the study that Academic Staff Development and output in State Universities in South-South Nigeria shows significant relationship that exists between staff development and the performance of academic staff in terms of research, teaching and community service. Notable, variation of the cost of TETFund intervention and balance from academic staff training and development has a negative impact on competence in South East Public Universities because of the limited beneficiaries. Similarly, Samuel (2013) revealed that funding as an external factor is a necessary condition for achieving qualitative university education in developing economies. The findings of the present study aligned with Samuel, (2013) that funding variation observed from the TETFund intervention and balance from academic staff training and development has negative impact on competence in South East Public Universities as a result of institutional gaps or bureaucratic tendencies. Godwin (2017) is in total support with the position of this present findings that emphatically the researcher asserted that variation of the cost of TETFund intervention and balance from academic staff training and development have been playing bottleneck role rather than supportive in the funding of academic staff programmes.

Fatima & Yusuf, (2017) study supported the present findings that participation in academic staff training and development has enhanced academic staff ability to develop students' critical thinking, knowledge of new research developments in their areas of

specializations. Corroborating, Happiness & Michael (2014) strongly affirmed that there is positive relationship between training/development and organizational effectiveness which is the objective of the present study. Mohammed, Zainab Mu‘awiyya (2018) established that there is a positive and significant effect of training and development on employee’s productivity. Hassaina, Igunnu, & Emmanuel (2015) in their study equally indicated that higher education programmes have several positive effects on the job performance of lecturers in the Federal Polytechnics which is not different from the findings of the present study conducted in South East Public Universities. It is inferred that Worlu (2017) corroborated the findings of the present research that training & development and employee performance positively influence on the job satisfaction, and that there is a significant relationship between training & development, employee performance, and job satisfaction.

## **Conclusions**

Based on the findings of this study, the researchers conclude that TETFund human capacity building of academic staff has contributed significantly in teaching, learning and research performance in Public Universities, South East Geo-Political Zone. It is ideal that professional development and competency is the gain of the beneficiaries in public universities in South East, Nigeria when it is adequately carried out. It is believed that academic staff that acquire adequate knowledge and skills are more steadfast to face daily tasks effectively. This is as a result of the increasing need and demand for specialized services in different fields within the academic institutions.

### *Recommendations*

- 1) TETFund intervention in academic staff training and development should be encouraged to continue and increase the intervention to enable more academics utilize the available opportunities.
- 2) TETFund intervention should be proactive in supervision of the benefitting institutions to remove unnecessary hitches observed, in order to attain the objectives of the training and improve the competency of the academics.
- 3) TETFund and Universities are encouraged to provide adequate state of art facilities that will propel creativity and innovation in modern teaching and research skills of the beneficiaries.

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**Appendixes**

**Table 3: Spearman correlation matrix among variables for academic staff training**

	Allocation	Cum_Payment	Balance	NAS	NoB
Allocation	1				
Cum_Payment	0.55**	1			
Balance	0.27*	-0.65***	1		
NAS	0.55**	0.87***	-0.50**	1	
NoB	0.14	0.18	-0.02	0.51**	1

**Table 4: Results of multiple regression analysis of number of academic staffs on cumulative payment and funding balance**

<b>Model: NAS = 4.72 + 2.79E<sup>-09</sup>Cumulative Payment - 1.15E<sup>-09</sup>Balance</b>
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<b>Model R<sup>2</sup> = 0.61; Adjusted R<sup>2</sup> = 0.48</b>		
<b>Independent variables</b>	<b>Variables coefficients</b>	<b>z-value</b>
<b>Constant</b>	4.72	33.8***
<b>Cumulative Payment</b>	2.79E <sup>-09</sup>	23.0***
<b>Balance</b>	-1.15E <sup>-09</sup>	-6.60***

NAS = number of academic staff, \*\*\*p<0.001



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# THE CONSEQUENTIAL EFFECTS OF PUBLIC DEBT ON ECONOMIC GROWTH IN SOUTH AFRICA: AN ARDL COINTEGRATION APPROACH

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**Abstract:** *The study employed the ARDL bound test to estimate the long and short run relationship among several macroeconomic variables real economic growth, domestic debt, external debt, budget deficit, inflation rate and investment. An error correction model was used to analyse the short-run disequilibrium. The results show that there is a short and long run equilibrium relationship between foreign debt, domestic debt, budget deficit, inflation rate and economic growth. The empirical results indicate that external debt negatively affects the real GDP growth in South Africa, both in the short and long-run. Several policy implications emerged from the empirical results. To keep public debt more manageable, South Africa should improve its debt management. Furthermore, the country can make use of debt-to-equity swaps by privatizing underperforming parastatals. This would make them competitive and efficient. This move could attract more foreign direct investment inflows and create more employment thus improve the economic growth of South Africa.*

**Keywords:** *Public debt, Fiscal policy, Budget deficit.*

## Introduction

Recent contributors signposted the issue concerning how public debt affects economic growth. However, there is still much dispute over this issue in many nations in both policymaking and academic circles (Cashell, 2007). The impact of the financial crisis and the subsequent sovereign debt problem, which began in 2007/8, has been of concern to various governments in their effort to stimulate economic growth, more especially in developing countries. Against this background, government debt continues to be high in both developing and less developed countries. Notwithstanding, the consequence of high government debt from different countries, particularly African countries, was attributable due to high government expenditures, high unemployment, and state corruption among other factors. According to Mititi (2013), a sound risk management by the public sector is essential as it induces economic growth and economic balance through mobilizing resources at a lower borrowing cost and concurrently minimizes financial risk, to be consistent with a prudent approach. Furthermore, a stable economic growth in a country is productive if it is aided by an increase in the effective and proficient utilization of resources in the interest of achieving macroeconomic objectives, notably, economic stability, and ultimately revival of the level of employment. In the 2018 national budget speech, it was pointed out that South Africa's rising government debt ratio, accompanied by low or unpredictable growth, is an outcome of the mounting debt costs crowding out social and economic spending. As stated by National Treasury (2018), with state revenue under pressure the former Minister of Finance Mr Malusi Gigaba pointed out that government

seeks to reduce the primary budget deficit over the medium term to balance the budget and keep the percentage of government debt to GDP at a stable level of 56.2% by 2022/23. Additionally, South Africa came up with a National Development Plan (NDP) outlining the vision for 2030 to ensure economic stability and mitigate economic challenges. The underlying focal point on this vision is progressive fiscal policy which is expected to perform a key role in leading the pace at which the South African economy can grow and the way to subsume the key challenges that may arise in future. This is in line with the findings of Ocran (2009), who suggested that to attain fiscal policy acceleration, there must be a balance and realignment of key areas of government policy to use consumption and investment expenditure to accelerate growth. All of this would be compatible with the economic infrastructure required to support the state's role in setting an appropriate macroeconomic framework. The size of government deficit and the strategy to reduce and maintain it within the threshold remains a serious problem to deal with in many countries including South Africa. Looking at countries like Spain, Greece, Cyprus Ireland, and Portugal they ended up in situations of sovereign debt default due to the financial crisis. Even worse, for these countries to continue functioning, the international financial institutions had to bail them out (Beirne and Fratzscher, 2013). The instruments of fiscal policy in most countries, including South Africa, are used to counter slowdowns in the economy. Swanepoel and Schoeman (2003) argue that countries utilize the instruments of fiscal policy owing to their countercyclical role in dealing with external shocks that could occur due to the vulnerability of an economy amid a worldwide monetary downturn. Furthermore, the effects of fiscal policy contribute enormously to a country's economic outcome, and they are among the key tools benefiting business or economic cycles to promote fiscal stability in a country. Fiscal stability is determined by both the budget revenue side and by the consumption streams. On the income side, most nations are caught in profound budget shortfalls or government obligation and are calling for higher taxes or other revenue from the open segment to manage the subsequent increment in debt. Such a decision, however, can spark the economic growth rate in a developing economy, which as a result, can ultimately induce the erosion of tax a base and dwindle tax revenue. As such, this could further increase the budget shortfalls, and lead to fiscal instability within the economy. The fiscal policy involves circulation of the resources at different times across society in the economy, as far as expenditure is concerned. Barker, Buckle and Clair (2008) hold a view that there is not autonomy of structures and stability roles played by fiscal policy. However, such structures have significant ramifications concerning sustainability of the fiscus and the adequate stabilization on the role of fiscal policy. For example, the availability of resources that can be spent by the government is determined by the size and structure of the tax base, thus affecting sustainability of the fiscus. In this study, it is important to bring to light the idea that achieving economic growth rate will reduce poverty and inequality by 2030 and that requires the government to deal with a growing public debt amongst other factors. To do this, among other things, the government must address the issue of the escalating public debt. It is noteworthy that several economic factors could limit the likelihood of attaining some of the NDP's goals by 2030. The primary focus of this study, however, is on public debt in order to show how it has affected South Africa's economic growth from 1961 to 2022.

## **Literature review**

In order to produce study evidence-based findings, different theories neither complementing each other nor contradicting each other are considered in this section. Moreover, the empirical studies are carried out to ascertain that the facts and opinions made in this study have back up and support from other studies. Therefore, consideration of the literature will enable this study to identify and narrow the existence of the literature gap pertaining to public debt and economic growth in South Africa.

### *Theoretical literature review.*

The development of the modern public debt theory resulted from the great 1930s depression, which led to an economic crisis. The traditional view outlines the constant unbalanced budget and rapidly public debt (Mah et al, 2015). Furthermore, imperative to the financial stability of the nations, huge public debt is viewed as a national asset rather than a liability, given the continuous deficit spending is significant to the economic property of the nation (assuming it is at full employment). With that said, an increase to the national income would result from the multiple effects caused by a rise in public debt as outlined by Keynes. He further linked an increase in employment and output by relating it to the effects of the public borrowing with deficit financing as well as authorized government spending ultimately affecting an increase in aggregate demand. As stated by Parkin et al (2008), Keynes consumer borrowing is as desirable as borrowing for investment to finance production and technological innovation consequently consumption expenditure would lead to increased investment.

According to the theory of debt overhang, the stock of public debt increases the cost of economic expansion, deterring private investment or changing effective governmental spending. The debt overhang hypothesis, as put out by Reinhart et al. (2012), contends that unsupportable public debt erodes public policy's legitimacy. However, Mohanty and Mishra (2016) emphasize that if a country's ability to service its debt is greater than its anticipated external debt, the debt overhang theory implies rising debt payment costs that hamper investment. The implication of this is that the possibility of government to sacrifice fiscal consolidation results from the ripple effect of pressure caused by public debt further increasing a country's budget deficit. According to the theory, a huge stock of debt creates different incentives for both creditors and debtors. As a result, debt reduction benefits both the debtor and the creditor. The theory goes on to explain how capital accumulation or productive growth affects growth and how this is thought to be affected nonlinearly by public debt. The likelihood of future debt is based on the assumption that the amount of debt accumulated will be greater than the nation's capacity to pay it back. This theory holds that a country's ongoing increase in debt servicing costs will further deter both local and foreign investments that would have accelerated economic growth. Krugman (1988) argues that potential investors would be more concerned about the heavily taxed production by creditors in the attempt to service public debt at the expense of the investment costs incurred from future output.

### *Empirical literature review*

As reported by Gómez-Puig and Sosvilla-Rivero (2017), the auto-regressive distributed lag was deployed to assess the short- and long-term effect of public debt on the economic

growth of euro countries. The study was conducted using the period from 1961-2013 to limit the approach to testing with annual data spanning. The results of the study revealed different patterns across all these euro countries, which in turn support the view that in the longer term, public debt is likely to impact inversely on the performance of the economy in the euro member states, while its short-run effect on other hand may be positive depending on the country. Reinhart and Rogoff (2010), in their study of economic growth and inflation at different levels of government and external debt for 44 advanced and emerging countries over a 200-year period, found that public debt has adverse growth consequences only beyond 90 percent ratio of debt-to-GDP for those countries. Additionally, it was noted in the study that, the threshold of total external debt-GDP seems to be a greater for the emerging markets (60%) that is associated also with adverse growth outcomes. Dritsaki (2013) established the causal nexus of Greece's economic growth, exports, and government debt. The study utilized time series data spanning from 1960-2011 of economic growth (proxy real GDP), exports and external debt. In the methodological approach, they employed VECM and Granger causality tests to analyses their results. Their findings displayed the existence of "short-term and long-term relationship" amongst variables under investigation. Moreover, the study found the existence of unidirectional causality of Granger ranging two ways as follows, exports to growth, and from growth to public debt, with non-evidence of short-term causal connection amid exports and public debt. The results further signaled the evidence of a unidirectional Granger causality (long run) that ranges from economic growth to government debt.

Saifuddin (2016) looked at how public debt in Bangladesh can influence its growth, observing time series data for the period 1974 to 2014. The investment model was adopted in this study to determine how public debt could potentially signal indirect influence on economic growth by impacting investment. In addition, the study applied the growth model to observe the direct association of government debt, and economic growth. The estimation of both models was through the regression of two stage least squares (TSLS). As a result, it was found that both investment and economic growth are positively related to public debt. The empirical findings also suggest that through its positive influence on investment, public debt affect growth indirectly, albeit in a positive way. Numerous econometric tests are used in the current study to produce accurate results. Similarly, Munzara (2015) had researched the impact that foreign debt has on Zimbabwe's economic growth, making use of annual time series data, 1980 to 2013. Labor force, capital investment, and trade openness are chosen as control variables. The OLS regression was employed to interpret the data to fulfil the objectives of the study. The results revealed the negative impact of external debt and openness to trade in the economy of Zimbabwe, while the investment on capital and labor force growth yielded positive effects. Furthermore, the study made a strong emphasis in recommending that the country should not heavily rely on foreign borrowing to finance economic growth but instead rather create a conducive environment for alternative sources of foreign funds such as project finance and FDI. Additionally, the country should avert excessive imports of consumables and rather advocate for value-added exports by the manufacturers locally.

The dynamic relationship between accumulated public debt ratio and real GDP growth was analyzed for the South African economy, years 1980-2014 (Baaziz et al, 2015). The study made use of LSTR model with inflation rate and openness trade as two macroeconomic control variables. Furthermore, it was found that, the country's level of indebtedness



informs the type of link that can exist amid public debt and real growth of GDP. In their view, any level of public debt in South Africa that is plethora to 31.37% of GDP jeopardizes growth momentum in the economy. Their findings sent a strong warning to government and policy makers concerning the rational to ameliorate fiscal credibility and enhance countercyclical fiscal policies that could steer the country to safe havens and safeguard the public debt level. Their study was more focused on two macroeconomic variables hence, in the current study more parameters of public debt are added as well as numerous econometrics test are employed. Unlike the study by Baaziz et al (2015), which determined the threshold of public debt on economic growth of South Africa, the current study seek to address the effect of public debt on economic growth. Ncanywa and Masaga (2018) explored how public debts impact on the investments and economic growth of South Africa using quarterly data spanning from 1994-2016. Their objective was achieved through multiple econometrics tests. The incorporated variables were gross domestic product, public debt, investment, and government deficit. Their results for Johansen test of cointegration confirmed the existence of cointegration among variables observed thus, validating long run association. Most importantly their research outcomes were mainly informed by vector error correction model (VECM) accompanied by other econometric tests such as Variance Decomposition and Impulse Response Function and Granger causality. The results of VECM validated the short run association relating public debt and economic growth in the short run. Granger causality results have shown that public debts can Granger cause economic growth, and there is bi-direction association amongst the two variables. The current study used different variables than the ones used by Ncanywa and Masaga (2018) as well as the study period, however, the current study has borrowed much from the above study.

With the aim of examining how public debt influences economic growth, Malaba and Phiri, (2017) employed the ARDL model to scrutinize the short-run and long-run responsiveness of economic growth to public debt in South Africa. Their study used the first quarter of 2002 and fourth quarter of 2016 data to mark their analysis marked. The results show that, in the long run, there exist a negative relationship between public debt and economic growth. Although economic growth and public debt could link positively in the short run, there is no clear indication of what the short-run effects could look like. The study concluded by stressing that, policy makers must be cautious while acquiring additional unit of debt and they must implement some debt management programmed in stabilizing the level of high debt as this harm the economy.

The empirical literature reviewed above have shown mixed and inconclusive results from different countries regarding how public debt affect economic growth. However, the debt overhang and threshold hypotheses played an important role in the literature, thereby identifying the importance of debt at reasonable levels, which, once exceeded, will infer an adverse impact on economic growth. A mixture of reported results makes it difficult to take a position from the broad literature except to refer to a specific study. In the case of South Africa, the scarce literature suggests a negative association of government debt and economic growth. Debt has continued to grow even though newly fiscal consolidation strategy indicates borrowing for debt-repayment as one of strategies towards resolving the debt crisis. South Africa continues to rely more on debt even though it is already highly indebted.

## Methodology

This study employed autoregressive distributed lag (ARDL) modelling. The real GDP is the dependent variable which is transformed into log. The explanatory variables in this study are public debt (proxy by foreign debt and domestic debt), CBD (budget deficit), INF (inflation rate), and GFCF (gross fixed capital formation).

### Theoretical model

The theory of debt overhang is hypothetically unrivalled as reviewed in the literature section, making it attractive as the basis modelling. Thus, the examination follows Cunningham (1993) and Akram (2010). The model can be expressed in its auxiliary structure as

$$Y = Af(K, L, Debt) \quad (1)$$

Where  $Y$  is economic growth,  $K$  is the capital stock;  $L$  is the labor force, debt is the public debt and  $A$  presents other constant factors. In the model, the priori expectation is that  $K \geq 0, L \geq 0, Debt \geq 0$  and  $K + L + Debt \leq 1$

### Empirical model

Following the theoretical model, the model will take this form:

$$GDP = f(FDE, DDE, CBD, INF, GFCF) \quad (2)$$

Using the regression model, the model takes this form:

$$GDP = \beta_0 + \beta_1 FDE_1 + \beta_2 DDE_2 + \beta_3 CBD_3 + \beta_4 INF_4 + \beta_5 GFCF_5 + \mu \quad (3)$$

Where  $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  denote the coefficients of the explanatory variables. Conspicuously, the possible sway of the omitted variables is denoted by error term  $\mu$

FDE= Foreign debt stock (% to GDP)

DDE = Domestic debt stock (% to GDP)

CBD3 = Budget deficit (% to GDP)

INF = Inflation rate

GFCF5 = Gross fixed capital formation (% to GDP)

$\mu$  = Error term

$\beta_0$  = intercept

This study will employ autoregressive distributed lag (ARDL) modelling. The real GDP is the dependent variable which is transformed into log. The explanatory variables in this study are public debt (proxy by foreign debt and domestic debt), CBD (budget deficit), INF (inflation rate), and GFCF (gross fixed capital formation)

## Empirical Results and Discussion

### Summary statistics.

The empirical examination starts with descriptive insights. Table 1 details the results of descriptive insights on the variables utilized in the investigation. The data demonstrates that there are significant variations for all variables over the review period. The following statistics are derived; mean and standard deviation for each individual series and identify the extreme values.

**Table 1 Descriptive analysis**

Variables	Mean	Standard deviation	Min	Max
LNGDP	14.266	0.438*	13.306*	14.954
CBD	-3.135	1.678**	-7.100	0.900
INF	8.256	4.592	1.200	18.700
DDE	35.856	6.747	22.300	48.200
FDE	2.677	1.518*	0.600	6.600
GFCF	21.746	4.548	15.150	32.102

*Source:* Author's computation. *Note:* Figures denote level of significance (\*, \*\*) at 1% and 5% relatively.

As can be seen from Table 1, the substantial values of all variables are generally proximate to the mean, signposting the minimal substantial variation. GDP, budget deficit and foreign debt have standard deviations of 0.43, 1.68 and 1.52, respectively, suggesting that the data points are close to the average. Inflation rate, domestic debt, and gross fixed capital formation, on the contrary, have relatively high standard deviation values of 4.59, 6.75 and 4.54, respectively, implying that the data points are spread out. In a nutshell, it can therefore be stated that, the study has a moderate magnitude in terms of variations in the macroeconomic variables data.

*Unit root results*

Table 2 demonstrates the summary of the findings as yielded by ADF stationarity tests. The technique tests a variable for stationarity to validate or invalidate a null hypothesis that “variable contains a unit root”. The level of significance at which this null hypothesis can be rejected it or validated is 5%. The decision to reject / accept the null hypothesis can be guided by comparing t-statistic and critical values. When the former is higher, we reject the null hypothesis, and visa-versa is applicable to the latter. The ADF confirms that stationarity of budget deficit and foreign debt is validated at level, unlike, GDP, inflation rate, domestic debt and gross fixed capital which became stationary when subjected to first difference.

**Table 2 Unit root results**

Variable	M.S	ADF		KPSS		Output
		Level	1st diff	Level	1st diff	
<b>GDP</b>	Intercept	-2.75	-7.43	-6.68	-28.85	I(0)
	Trend	-4.04	-5.38**	-6.85	-29.18	
<b>CBD</b>	Intercept	-3.88	-6.14	-9.33	-11.55	I(0)
	Trend	-1.39	-2.23	-4.52	23.04	
<b>INF</b>	Intercept	-3.80	-4.97	-9.05	-24.57	I(0)
	Trend	-4.78	-5.04**	-8.90	-22.20**	
<b>DDE</b>	Intercept	-2.29	-8.82	-2.44	-10.36	I(1)
	Trend	-3.47	-8.75**	-3.43	-10.28	
<b>FDE</b>	Intercept	-2.56	-3.68	-2.52	-8.13	I(1)
	Trend	-2.77	-5.83	-2.52	-23.08	

<b>GFCF</b>	Intercept	-2.75	-4.43	-2.00	-4.68	I(1)
	Trend	-1.41	-4.40	0.82	1.77*	

Source: Author’s computation. Note: Figures denote t-statistics, 1% level of significant\* and 5% level of significance\*\*

In contrast to the alternative of a non-stationary process, the null hypothesis of the KPSS test is that a series is in a stationary process. Commenting on the test, the outcome demonstrates that some levels of variables' t-test statistics for the KPSS test are lower than the critical values while others have greater critical values. Due to this, there is not enough statistical support to rule out the unit root, which is the null hypothesis. As the t-test statistics KPSS tests are greater than the critical values, however, we have strong statistical evidence to reject the null hypothesis in the first differences when looking at the data. These results clearly show that some variables under investigation exhibit non-stationarity characteristics in levels, both under ADF and KPSS tests whilst others don't. However, they become stationary in both levels and first difference, and for this reason, we treated these variables as I(0) and I(1) process. Having established this stationarity process, we proceeded to ARDL analysis, and this follows in the next section. As such, the use of ARDL bounds test of cointegration was triggered since variables are integrated of different orders. Prior to applying the model thereof, the optimum lag-length for the specified ARDL model is being estimated and provides the output in Table 3.

*Optimal lag length.*

A significant part of experimental research with error correction modelling is to select an optimal lag-length. This is because the statistical inference of utilizing a model depends on the determination of a suitable model. The examination then determines the optimal order of lags on the first difference variables after determining the order of integration.

**Table 3 The optimal lag-length selection.**

Lag	LogL	LR	FPE	AIC	SC	HQ
<b>0</b>	-792.349	NA	172344.8	44.915	32.199	35.212
<b>1</b>	-452.024	42.936	50.664	42.509	29.845	24.923*
<b>2</b>	-603.953	66.943*	41.339*	42.953	28.059	29.134
<b>3</b>	-472.942	48.039	50.294	38.501	31.563	20.326
<b>4</b>	-402.483	45.428	55.042	30.852*	25.492	23.242

Source: Author’s computations

LR denotes sequential modified LR test statistic (5% level at each test), Final prediction error is denoted by FPE, while AIC, SC and HQ denotes Akaike information criterion, Schwarz information criterion, and Hannan-Quinn information criterion respectively. Considering the findings displayed in Table 3, we choose SIC over AIC for the purpose of this study as AIC is known to suggest more lags than necessary, resulting in loss of degrees of freedom and model overfitting. SIC recommends one lag, supported by HQ, as can be seen in Table 3 AIC recommends four lags.

*ARDL Bounds Cointegration.*

**Table 4 ARDL bounds cointegration**

		Bound critical values		
F-statistics	Lag	Significance	I(0) Bound	I(1) Bound

10.33**	1	10%	2.94	3.44
		5%	3.24	3.89
		2.5	3.39	4.32
		1%	4.22	5.76

Source: Author’s own computation. Note: 1% level of significant\*, 5% level of significance\*\*, and 10% level of significance\*\*\*

The ARDL bound test corroborates the presence of long-run relationship amongst the variables in question. This came because of the 10.33 F-statistic, which is higher than both the lower (3.24) and upper (3.89) boundaries at the 5% level of significant. Therefore, for the alternative hypothesis of cointegration  $H_0 = 0$ , the null hypothesis of no cointegration  $H_0 = 0$  is rejected. These findings are consistent with the use of the same cointegration technique by Hassan et al. (2015) and Ahmad and Aworinde (2015). This confirms that variables in the model are stable and have long-run relationship. The results also confirm the use of an ECM to represent the relationship between economic growth and factors contributing to it. Therefore, the study continued to estimate the regression output, and speed of adjustment to balance given the existence of a long-run relationship and the results are presented below.

*Long run error correction model.*

The rationale for running the regression of the data at levels is to generate the residual to be used in formulating an error correction term to be used to construct short run ECM. The residuals from the estimation were tested for their order of integration. The results indicated an integration of the residual term to be at order zero, hence justifying long-run relationship amid real GDP and its explanatory variables.

**Table 5 Long-run dynamics of the ARDL error correction model**

Dependent variable: LOGGDP				
Log run coefficients				
Variables	Coefficients	St. Error	t-Static	p-values
FDE	-0.723**	0.420	-3.432	0.009
DDE	-0.288	0.104	-3.141	0.018
INF	-0.751**	0.071	-4.823	0.001
CBD	-0.592	0.395	-4.134	0.051
GFCF	0.032	0.082	0.382	0.719
C	22.309**	4.134	4.726	0.000

Source: Author’s own computation. Note: 1% level of significant\*, 5% level of significance\*\*, and 10% level of significance\*\*\*

Adjusted R-squared = 0.693 F-statistic = 16.911(0.0009) Durbin-Watson = 5.835

From Table 5, all significant variables have their expected signs. Foreign debt is factually significant at the 5% level, while domestic debt and budget deficit are factually significant at 5%, followed by gross fixed capital formation recording 1% level of significance. The adjusted  $R^2$  is 0.69 implying that the model fitted well within the data. Therefore, when real economic growth (RGDP) adjusts by 69%, this could be explained by the changes in all the explanatory variables. Likewise, there is 1% significance of the entire model signaled by F-statistic probability value of 0.0009, which do not exceed 0.01. The coefficient of foreign debt recorded a negative value of -0.723, which is factually significant at 5% level. According to the findings, if foreign debt surge by 100%, the real

economic growth will dwindle by 72.3% ballpark. Therefore, the contribution of foreign debt to economic growth does not bode well for encouraging further accumulation of debt. The economic logical viewpoint in this case would suggest a cut in government expenditure owing to skyrocketing level of foreign debt, the results found here concur with the findings of Putunoi and Mutuku (2013).

An adverse link of domestic debt with real economic growth has been corroborated and denoted by a negative coefficient of 0.288 which is statistically significant at the 5% level. Therefore, a 100% increase in domestic debt induces real economic growth to fall by roughly 28.8%. This is a true reflection of the ‘debt overhang effect’. The results are consistent with the Debt Overhang theory which stipulates that when size of the debt stock grows so large, it can retard economic growth. In other words, a large debt overhang increases the uncertainty of the environment in which the country is operating in, it acts as an indirect tax on returns to investors. The findings in this research support Elbadawi et.al. (1997) findings, in which debt accumulation proved to have a negative effect in 99 developing countries covering sub-Saharan Africa (SSA), Asia, Latin America and the Middle East Countries hence, external debt accumulation deters economic growth. The coefficient of budget deficit was found to be statistically significant at the 5% level with a negative value of 0.592.

This means that a 100% increase in inflation results in an approximately 59.2% decrease in real economic growth. A conceivable clarification for the negative sign could be that the funds that could have been used for productive purposes may be diverted towards the repayment of the debt. This may result in swarming out of the private sector when the government draws away resources in the economy towards the servicing of the debt. The results support the crowding out hypothesis by Cohen (1993) and Kasidi and Said (2013), who also found the same results. Furthermore, an adverse linkage of Inflation rate coefficient to real economic growth was attested significant. It has a coefficient of 0.751 which means that a 100% increase in inflation rate will induce approximately 75.1% decrease in economic growth. The gross fixed capital formation coefficient exhibited not just a positive link to real economic growth since the linkage is also significant. A coefficient of 0.032 means that if gross fixed capital formation increases by 100%, it will, in turn induce a 3.2% increase in real economic growth. Since investment is a dominant component of GDP, an increase in investment will also increase real income. The more the inflow of capital formation in an economy, the more national income will also increase.

*Short run error correction model.*

From the ARLD bound of cointegration, the results revealed the presence of the long-run behavior among the variables, thus suggesting that there is cointegration. The ECM in this case would capture the long-run economic connection among economic growth and its determinants. To explain the connection between economic growth and its determinants in different time periods, both the long-run model and the short-run error correction mechanism (ECM) were employed.

**Table 6 Short-run dynamics of the ARDL error correction model.**

Dependent variable: LOGGDP				
Log run coefficients				
Variables	Coefficients	St. Error	t-Static	p-values

FDE	-0.461**	0.156	-2.959	0.004
DDE	-0.549	0.103	-5.289	0.000
INF	-0.417	0.076	-5.486	0.000
CBD	-0.801	0.236	-0.771	0.444
GFCF	0.011*	0.058	0.200	0.842
C	-0.624	0.121	-6.76	0.000

Source: Author's own computation. Note: 1% level of significant\*, 5% level of significance\*\*, and 10% level of significance\*\*\*

Adjusted R-squared = 0.385716    F-statistic = 4.118739 (0.034756)    Durbin-Watson = 1.370943

In the short run, most variables maintained their expected signs. A Durbin-Watson (DW) statistic of 1.371 suggests that there is no decision on autocorrelation since it lies between 1.166 (dL) and 1.808 (dU). The adjusted  $R^2$  with a value of 0.386 is very low since some variables had to be differenced once to make them stationary, which resulted in the loss of some degrees of freedom. However, the model is still useful as depicted by the F-statistic probability of 0.035, which is less than the 5% critical value. The prospect of spurious regression is ruled out by the circumstance of Durbin-Watson statistic being greater than the coefficient of determination. There is solid proof of debt-overhang as shown by a statistically negative connection between foreign debt and real economic growth. A 100% expansion in foreign debt results in 47.1% reduction in real economic performance.

This means that external debt accumulation retards economic performance in the short-term, and in the long-term. Clements, Bhattacharya, and Nguyen (2003) found similar results. However, domestic debt is found to negatively affect the real growth rate of South Africa although the effect is noteworthy in the short run. In addition, budget shortfall and the price level are found to influence economic performance negatively, as far as short run period is concerned. The results of this are evident in the coefficients, which are negative and factually significant. The coefficient of the gross fixed capital formation recorded a positive value of 0.0117, and it is statistically insignificant at 1% level of significance. A 100% expansion in gross fixed capital formation will increase real economic growth by 1.17%. The relationship is supported by the multiplier effect of national income, which states that initial injection of investment will produce immense amount in national income, and ultimately revive growth rate. The ECM coefficient printed a negative value of -0.642, signifying statistical significance, and suggesting that speed of acclimation to equilibrium consequential to a shock is roughly 60%. These findings are consistent with Mhlaba and Phiri (2017) findings, which affirmed negative short-term impacts amid growth and public debt.

#### *Residual Diagnostics.*

To confirm the legitimacy of the model assessed, the examination further checks for the presence of sequentially correlated disturbances utilizing the Breusch-Godfrey LM test. The test assumes that the residuals are not serially correlated, herein referred to as the null hypothesis. The computed probability coefficient is 0.424, which is more than 5% critical value, indicating null hypothesis acceptance. Because the model has no serial correlation, this model is desirable. Furthermore, the calculated probability value for the F-statistic is more than 5%, indicating homoskedasticity rather than heteroskedasticity. This implies a constant variance in the residuals, which is a desirable or good indication. The White test also confirms that the model does not suffer from heteroskedasticity because the

probability value is higher than 5% critical value. Accordingly, table 5 results suggest that model residuals have the desired statistical property of homoscedastic variances.

**Table 7 Residual Diagnostics tests**

Null hypothesis	F-Statistic	P-value	Decision
Residuals are not autocorrelated	0.623	0.424	Do not reject
Residuals are homoscedastic	1.691	0.123	Do not reject
The model is correctly specified	0.843	0.423	Do not reject

Source: Author's computations

From the Ramsey reset test. The null hypothesis state that the model is correctly specified. This came because of the p-value which is greater than the 5% level of significance. Therefore, the model is correctly specified.

## Conclusion

This study investigated the effect of public debt on growth of the South African economy, as far as a set objective is concerned. Different techniques of econometrics were applied in the analysis that is ARDL bound cointegration, ECM, Granger causality test, ARDL model and CUSUM. The study obtained annual data (1961-2020) from different sources including SARB and World Bank for explanatory variables, to achieve the objectives set here-in. The ARDL co-integration test found that the investigated variables had a long-term relationship. It turns out that the relationship between FDE, DDE, CBD and INF and GDP are negative in the short and long-run, while GFCF revealed that a relationship with GDP is positive. The ECM model confirmed that these variables have a short-run relationship in the series and that the system can adjust to the equilibrium at a speed of 60%. The study recommends that South Africa needs to improve its productive capacity and infrastructure to raise exports, which in turn, will increase investment resources and reduce reliance on debt, and the economy should grow without reliance on debt. The policy makers should consider a route of investing in capital as a technique to expand the production capacity of the South African economy.

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## **THE USE OF ARTIFICIAL INTELLIGENCE IN EDUCATIONAL DIVERSITY MANAGEMENT**

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**Abstract:** *The use of Artificial Intelligence (AI) has been steadily growing across various industries and sectors, and education is no exception. One area where AI has the potential to play a significant role is in diversity management in education. With the help of AI, educational institutions can create a more inclusive and diverse environment for students, teachers, and staff.*

**Keywords:** *AI, diversity, management, education*

**JEL Classification:** *I2*

### **Introduction**

Artificial Intelligence (AI) has become a well known tool in many scientific domains, including the field of education. Not only does the integration of artificial intelligence in education have the potential to revolutionize the way we approach teaching, learning, but also one area where AI is gaining attention is in educational diversity management. Diversity has been a critical issue in education due to multiple factors, such as migration, globalization and multiculturalism, and schools worldwide are under pressure to ensure that all students have access to equitable learning opportunities. Artificial intelligence tools are beginning to be used in addressing this challenge in order to provide personalized learning experiences that cater for the diverse needs of students. In this article, we will explore the use of artificial intelligence in educational diversity management and examine its potential benefits and challenges. We will also discuss some of the current applications of artificial intelligence in this area and explore future possibilities for using artificial intelligence to create more inclusive learning environments.

### **Literature review**

So far, various scientist and computer experts have approached the dimensions of using artificial intelligence. To begin with, Nick Bostrom, a Swedish philosopher and author of *Superintelligence: Paths, Dangers, Strategies* (2014), examines the potential risks and benefits of artificial intelligence. One of the main concerns raised by Bostrom (2014) is the risk of an "intelligence explosion," where an AI system becomes smarter than humans and is able to rapidly self-improve, leading to an exponential increase in intelligence. Bostrom argues that if this were to happen, it could be difficult to control the actions of the superintelligent AI, and it could pose an existential risk to humanity. On the other hand, Bostrom also acknowledges the potential benefits of AI, such as increased productivity,

improved healthcare, and scientific breakthroughs. He suggests that the key to realizing these benefits while minimizing the risks is to ensure that the development of AI is aligned with human values and goals, while Ray Kurzweil (2005), a futurist, inventor, and author of *The Singularity Is Near* which explores the potential implications of advanced AI and other emerging technologies argues that we are rapidly approaching a technological singularity, which is a point in the future when artificial intelligence will surpass human intelligence. Kurzweil suggests that this singularity will happen around the year 2045, as technological progress continues to accelerate exponentially, leading to a world where machines and humans merge, creating a new type of being that is part-human, part-machine, which he names the "transhuman" with individuals able to enhance their physical and mental capabilities using technology, such as brain implants, nanobots, and biotechnology.

Another author to explore the potential impact of machine learning on society is Pedro Domingos (2015), a computer scientist and author of *The Master Algorithm: How the Quest for the Ultimate Learning Machine Will Remake Our World* who develops the idea that there is a "master algorithm" which could be applied to any data in order to derive the most accurate predictions and insights. He also suggests that this algorithm will eventually be able to learn and adapt from any type of data, without requiring any prior knowledge or assumptions about the data, and will build significant improvements in education by providing more accurate predictions and personalized learning programmes, personal recommendations, objective assessment and individual counseling. In their works, *Weapons of Math Destruction: How Big Data Increases Inequality and Threatens Democracy* (2021), Cathy O'Neil as a mathematician, examines the potential dangers of using AI and algorithms to make important decisions, and Max Tegmark as a physicist and author of *Life 3.0: Being Human in the Age of Artificial Intelligence* (2017) explores the potential implications of advanced AI for humanity, such as the potential risks and challenges associated with the artificial intelligence, including concerns around privacy, bias, the potential displacement of jobs, and the need for careful consideration of the ethical and societal implications of AI.

## Methodology

As the specialists listed in the reviewed literature have shown, keeping in mind that there are concerns and warnings regarding its use, artificial intelligence could be capitalized in several different ways to promote diversity management in education.

### *Identifying Bias in Admissions at universities and colleges*

Artificial intelligence could help to identify biases in the admissions process. Analyzing data on admissions decisions, identifying biased patterns based on factors such as race, gender or socio-economic status could help institutions to create more objective and fair admissions policies, insuring equal educational opportunities. Stuart Russell et al (2002), in the book *Artificial Intelligence: A Modern Approach* (2002) present a comprehensive overview of the field of artificial intelligence and the different approaches to building intelligent systems. One of the main themes in Russell's et al (2002) work is the importance of designing artificial intelligence systems that are aligned with human values and goals. They argue that current artificial intelligence systems lack the ability to reason about ethical

issues, and this could lead to unintended consequences that are harmful to humans. Russell et al. (2002) also emphasize the need for these artificial intelligence systems to be transparent and explainable, as the lack of transparency in artificial intelligence systems could become a major barrier to their adoption and trustworthy by society.

Moreover, Russell et al. (2002) discuss the challenges of developing artificial intelligence systems that are robust to unforeseen circumstances and can adapt to changing environments, as far as these systems need to be designed to operate in uncertain and unpredictable situations rather than just in highly controlled environments, highlighting a mostly human-centered approach to artificial intelligence taking into account ethical, transparency, and adaptability considerations.

#### *Tracking Student Performance*

Artificial intelligence has already been used to track student performance and identify achievement drawbacks between different demographic groups. It can provide real-time data on student progress and highlight areas where certain groups may be struggling. This dimension, related to diversity management, leads to the creation of strategic targeted interventions to support students who need it most.

#### *Supporting Inclusive Teaching Practices*

Artificial intelligence can also provide support to teachers by identifying inclusive teaching practices, analyzing teaching materials and provide feedback on areas where inclusivity could be improved. This can help to create a more inclusive learning environment for students and a diversity-conscious approach from the teachers.

#### *Promoting Diversity in Hiring*

Through its capacity of deep and rapid analysis of discourse, interpretation of stereotypes, artificial intelligence can identify potential biases in language that could discourage certain groups from applying for certain vacancies or candidates who may have been overlooked due to unconscious biases in the hiring process who, due to their diversity, could bring along added value.

#### *Providing Personalized Learning*

When involving artificial intelligence in education generally, or in the educational process of teaching-learning, there could be provided personalized learning experiences that cater for the diverse needs and abilities of individual students, taken as unique human beings. It can adapt to different learning styles and multiple types of intelligences, and provide support to students who may be struggling, ensuring that all students have equal opportunities to succeed. In their work, *Deep Learning* (2016), Yoshua Bengio et al. discuss the importance of developing a deep understanding of the fundamental concepts of machine learning in order to excel in the field. Bengio et al. (2016) emphasize that students need to not only memorize algorithms but also understand the underlying mathematical principles and the intuition behind them, enhancing the importance of hands-on experience and experimentation in deep learning in order for the students to work on practical projects and experiment with different approaches to gain a deeper understanding of how the models work and perform. Moreover, the authors stress the importance of using open-source tools and collaborating with others in the field to gain more practical experience.

Altogether, Bengio et al. (2016) acknowledge that deep learning can be a challenging subject to learn and requires a lot of effort and practice, challenging students to be persistent, not let themselves get discouraged by setbacks, and keep the pace in learning and practicing, as all these lead to excelling in the field of learning with artificial intelligence assistance.

## **Discussions**

While the use of artificial intelligence in diversity management in education has the potential to create a more inclusive and diverse environment, there are also some potential drawbacks that need to be considered. One concern is that the use of AI may perpetuate biases if the algorithms are not properly designed and trained. Also, there is the risk that using AI may lead to a loss of human connection and empathy in the learning process.

Gary Marcus and Ernest Davis, in their book *Rebooting AI: Building Artificial Intelligence We Can Trust* (2019), argue that the current approach to AI is too focused on machine learning algorithms that are not well-suited for more complex tasks, these algorithms lacking the ability to reason, represent knowledge, and communicate effectively. Marcus & Davis (2019) also criticize the hype surrounding AI and suggest that the public and policymakers should have a more realistic understanding of the technology's capabilities and limitations and focus the research more on building systems that can work collaboratively with humans, rather than replacing them. As the current AI systems are prone to making mistakes and exhibiting bias, particularly in areas such as facial recognition and criminal justice, they advocate for more ethical considerations in the development and deployment of AI systems, including greater transparency and accountability, strongly insisting on and underlining the need for a holistic approach to AI, taking into account the cognitive abilities and limitations of both humans and machines as well.

## **Conclusions**

In conclusion, the use of artificial intelligence in diversity management in the field of education has the potential to create a more inclusive and diverse environment for students, teachers, and staff. However, it is important to carefully consider the potential benefits and drawbacks of using artificial intelligence and to ensure that the algorithms are designed and trained in a way that promotes fairness and inclusivity, without raising the risk of human exclusion or discrimination.

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## COMMUNITY POLICING AND SECURITY IN NIGERIA

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**Abstract:** *A contemporary community challenge requires a symbiosis between the police and the community. This paper examined community policing and security in Delta State with focus on vigilante groups in Abraka kingdom. The survey research method was adopted, with a combination of both primary and secondary sources of data collection. Questionnaires were administered and data were also generated from books, journals and newspaper articles. Data collected was tabulated and analyzed using the simple percentage. The study revealed that the Nigerian police force alone cannot secure lives and properties of citizens of Delta state, without complementary efforts from the community. The paper concluded that the police and the community can actually work together to provide security for the state. The paper recommended amongst others that the law making body of the state, which is the State House of Assembly, to enact laws that will encourage the establishment and training of the vigilante groups to enhance community policing in Delta State as it has being in other States of the Federation.*

**Keywords:** *Police, Policing, Community Policing, Crime*

### **Introduction**

The phenomenon of crime has been a major subject of private and public concern throughout human history. It will be untrue to say that we dwell in a society free of crime, in fact, no society can boast of being a crime free society. However, the big question often asked is, though crime is a part of an inevitable human behaviour, to what length should a society tolerates it? This question actually link to man's natural thoughts for survival, the ability to reciprocate to any threat to his life and properties. The rise in violent crimes in Nigeria has created an enormous vacuum of uncertainty in the safety and security of lives and property of individuals and the whole community general. The incidents of local and inherent crimes like armed robbery, drug trafficking and abuse, arson, kidnapping, murder, hired assassinations, rape, and ritual killings are examples of the most ferocious and violent crimes which have increased tremendously in recent past. The aggregate of the traditional crimes mostly committed call for a change in the strategies for the abstinence and control of crime in Nigeria. Community policing is centered on a systematic relationship between the regular police and the entire citizenry.

The duties and functions of the Police are not only for enforcing the law alone, it also include tackling a huge and gruesome range of community issue and problems. The foresight and transition from traditional or regular policing to community policing is a global phenomenon which has been welcomed and also making wave globally and the Nigeria police cannot be an exception. Indeed, community policing as a strong philosophy and practice is a veritable vehicle and extremely essential machinery for police reforms (Okiro, 2007). In 2004, the Nigeria police welcomed the idea of community policing as a pragmatic approach to police reforms. The stage was set for a glaring departure from the

traditional policing, that was incident based and reactive, to a problem-solving oriented policing that is proactive and in support with the community as the nexus of policing aims and values (Abdulrahman, 2007).

Like several other nations of the world following the trend of this new development, the Nigeria police force embraced the philosophy of community policing on the bases that in a democratic inclined society, the police are enjoyed by their fellow citizens to guard and protect, serve the public's interest when inline to do so and equally uphold the fundamental rights to liberty, equality and justice under the law. In order to fulfill these privileged roles, the police must have a symbiotic relationship, which is, being a part of, not apart from, the communities they serve. Community policing was formally and legally launched throughout Nigeria On 27th April, 2004, (The Dawn Newspaper, 2011).

Police forces are organized to defend, protect and preserve the interests of the people in all spheres of the in society. Incidentally, the importance of police as facilitators, inhibitors and mediators of change programme will rest on the behaviour posed by their society. In a society frustrated totalitarianism and economic downcast, the role of the police will be more of defending the status quo ante of those that are oppressed politically and also the economic injustice inherent in the community. In contrast, in a democratic society the police are most likely to render services that enhance development and also ensure the survival of democracy (Alemika, 1993b). Failure of the state and its security agencies to guarantee security has transform issue from a public service rendered by the government to a private necessity that individuals and groups have to provide for themselves through various means. This largely explains the proliferation of vigilante groups as an agency in community policing, obviously to fill the vacuum created by the inefficient, ineffective and corrupt ridden the Nigerian police force (NPF)(Ode, 2007). In America for instance, during the 19th century a group of self-appointed member of the society emerged at the frontiers and occasionally in lawlessness and disorder. Their emergence therefore, was in response to the recognition was given to American indigenous institutions and as such their activities were very noticeable where lawlessness and disorder was on the increase. Thus, their first noticeable activity was on the frontier among the “claims association” - group of settlers on public land who came together to ensure that, speculators did not outbid them when the land which they occupied was placed on public action (Silberman, 1980, Dumke, 1992).

In traditional Africa, security maintenance, crime prevention and the enforcement of general laws are based on each society's historical circumstances and desires. Thus, most members of each society willfully partake in programmes and activities to prevent and control crime and deviances. Community members, individual and collectively play roles in each society's law enforcement efforts (Okafor, 2007). However, within the Nigerian context, the dominant machinery for enforcing and maintaining law and order in the pre-colonial period was based on different socio-political arrangement. For instance, young men's age-grade among the Ibos are mandated with the sole responsibility for the security, maintenance and the enforcement of the general laws of the land. Community members may tend to make it mandatory and also use commonly sanctioned vigilante persons to prevent crimes by noticing, apprehending and prosecuting persons who are suspected of committing crimes (Okerefo, 1996, 2002).

Vigilante has become a common and essential feature of the Nigerian socio-political perspective. The creation of vigilante group as responses to the increase in theft and armed



robbery has a long and varied articulation in the history of Nigeria. Since the return to democratic rule in Nigeria in 1999, Nigeria has witness a high proliferation of vigilantism (Pratten, 2008). The Odua People's Congress (OPC), the Bakassi Boys and the Hisba illustrate the large, coordinated, and well organised indigenous organisations for security, crime prevention and law enforcement in Nigerian societies. As indicated, these organisations which were initially conceived as purely unofficial, indigenous groups for law enforcement have since 1999 assumed positions as official, indigenous-based (or in the case of Hisba, religious based) groups. Their new positions stem from the fact that the Sharia is a legal and justice system based on Islam. Apart from the large coordinated and well organised indigenous organisations of community policing found in many African countries there are numerous other groups, such as neighbourhood watch and guards found in most African communities.

Again, the groups result from the ineffectiveness and inefficiency of the official law enforcement organisations (Nonso, 2007). In Nigeria, for example, the vigilante groups exist to help guarantee security, law, order and stability to the citizens of each community. Generally, the groups are known to be more active at night than during the day. Usually able-bodied young men of each community supported financially and/or materially by the other community members (those not involved in community policing, but are members of the community) are empowered with the task of safeguarding the society and enforcing laws, often with the assistance of small weapons such as machetes, spears, bows and arrows and some guns.

### **Statement of Problem**

In spite of the government's promises to tackle crime, Nigeria continues to have high rates of armed robbery, political assassinations, ethno-religious killings, and other forms of crime (Chukwuma, 2002). Frustrated by the incapability of the regular police to respond swiftly and adequately to their safety and security needs, citizens have resorted to some self-help measures. The incapability of the police to contain crime has led to the creation of vigilante groups in community policing. The unconstitutionality of these organizations notwithstanding, they have made their presence known in South-West Nigeria where the Odua People's Congress (POC) dominate the scene, and South-East where the Bakassi Boys hold sway, and in other parts of the country where other vigilante groups and neighborhood watches are active (Obioha, 2007).

According to Chukwuma (2002) public opinion of community policing and vigilante activities are divided. A part of the public argues that community policing and vigilante activities should be regulated and closely supervised by the police. Another part calls for outright disbandment of community policing and vigilante groups and trail of their operatives, who take delight in judging potential offenders without trail and in administering brutal punishment. Yet, it is a fact that the police alone cannot adequately protect citizen's safety and security without the involvement of community policing and vigilante groups. The observation however cannot be generalised unless an empirical study is carried out. In regards to the above, this study focuses on examining the perception of community policing and security in Delta State using Abraka vigilante as a study.

### **Objective of the Study**

The main objective of this paper is to examine community policing and security in Delta State with special focus on Abraka vigilante. The specific objectives of the paper are to:

- i. Determine the essentials of community policing due to the laxity of the Nigeria police force.
- ii. Determine the role played by community policing in the safety security of the state.
- iii. Ascertain the positive/negative effect of community policing in security matters.

### **Research questions**

The following research questions have been formulated in line with the research objectives:

- i. Is the laxity of the Nigerian police force responsible for the rise of community policing?
- ii. What is the role played by community policing in the safety and security of the state?
- iii. What are the effects of community policing in security?

### **Theoretical Framework**

The social disorganization proposed by Shaw and Mckay (1931) explains and predicts deviant behaviours as being influenced by basic social factors such as differences in economic status, residential mobility and physical nature of neighbourhood in which heterogeneity manifests. Rather than the individual based explanation of the social learning perspective, the theorists assumed that deviant behavioural manifestation are commonplace in large complex societies. They believe that as the societal structure and contexts progress from simple to complex natural deviation and nonconformity to societal norms and values increase. These behaviours become stronger as the limits of social interaction extend from local, face to face to large human settlements of cities and urban life where the social consequences of various forms of personal conduct become discernable.

In this process of societal transformation, the extended family and close-knit neighbourhood relationship and interaction, which enhance conformity relatively, disappear. In its place individuals indifferent attitudes to actions that surround the urban life become pre-eminent. The social disorganization theory lays the background to the idea that closer individuals are bonding into an informal network of social relationship, the greater the degree of conformity. When individuals are in heterogeneous environment where there is variance in economic and social status, there will be no value consensus due to nonconformity of social values, which creates conflict situation. This theory therefore predicts conditions under which antisocial behaviours are most likely to thrive due to the opportunities and lapses created by structural heterogeneity of values. When there is cultural heterogeneity, conflict in values and rules, the social control mechanism will also be in conflict. Apparently, individuals will deviate from the norms because the rules existence may either be too loose or too harsh in application.

Hence, for Hirschi (1969) in his control theory, the quality and measure of control exercised on the individuals can be used as a predictive measure for their propensity towards antisocial behaviours. In his proportion, presence of effective control system prevents individuals from engaging in antisocial behaviours. This effective control is embedded and sustained in the collective consciousness of the society that limits

individual's actions. Hirschi identified individual attachment to the significant others, commitment to the conventional values, involvement in conventional activities and belief in the validity of social rules and norms as adequate control measure like in simple societies which are not expressively punitive in any way. Durkheim and Tonnies originally proposed this idea in their analysis of social relationships existing in the simple, traditional society referred to as mechanical solidarity and *gemeinschaft* respectively. Hirschi attributes conformity to social values on one hand and deviance on the other hand as outcomes of strong and weak attachment to the conventional society. Most deviants are characterised by lack of strong ties, bond or attachment to the conventional society. This lack of strong attachment induces development and maintenance of excessive relationship and stronger ties with deviant social work over that of conventional others.

Theoretically, the social deviant according to Hirschi (1969) do indeed lack strong social assurance, confidence and interpersonal skills to the point of social disablement. However, the theory further holds that commitment to values, aspirations of the society and the route to achieving those values make individuals less willing to jeopardise those values through deviance. In relating this framework to our study in Nigeria urban crime, it is observed that “development” in societies with particular reference to Westernization has not help matters. Instead it has been destructive and damaging to the socio-cultural values of the Nigerian society. Factors that contributed to the increase of crime in contemporary Africa in general include wide spread plantification and urbanization which in turn is spreading more rapidly than the improvement in the social and economic conditions, Lopez-Ray (1970). This rapid urbanization process and urbanism relatively affected the nature of social organization and structure in the emergent African societies.

With this development, sociologists and urban anthropologists envisaged the collective sentiments and the wills of the people transcribed in the “community” spirit as in the Durkheim's “mechanical solidarity” and Ferdinand Tonnies “*gemeinschaft*” being replaced by the individualistic orientation and attitudes of “strangers” (Obioha, 2002). Thus, the tribal like existence in societies to industrial characterised by greater heterogeneity of its population and complexity of its social network system is prone to growth in crime rate as we are experiencing in Abraka. What happens in the urban perspective is change in the values and orientation. The change in the structure of the society (urbanization) do not only influence the general trend of criminality, rather crimes of particular types have been proved to be more prevalent in the urban setting than in the rural country side. In Nigeria, crimes of violence committed in villages are usually the results of family quarrels or long standing feud and sometimes over farms or boundary disputes.

In the villages, the family ties are still intact and there is still respect for the father or head of the family whose decisions or orders are never disputed or gather with those of the village or district heads over the conduct of their peoples help to synchronise values and actions, and therefore stabilize relationship with the result that there is a high degree of guilt-feeling and shame which enforces a high degree of conformity. In the urban areas, on the other hand, society appears to be disjointed because the “family unit” is not so closely knit as in the villages; the relationships between persons or groups is therefore no longer stable.

As a result, there is de-synchronisation between values and action, hence a high degree of unpredictable behaviour persists which disorients the behaviour of others (Danmadami, 2000). Where there is intimate knowledge and sharing of values, guilt feeling may

internally help to suppress crime. In the Nigerian society, the traditional norms and values assumes varying dimensions which weakens the collective conscience. If every member of the society conformed to the same values and behaved reasonably, there would be no need to employ the services of the police to enforce obedience. Many Nigerians have been disoriented and do not have the capacity to feel guilty.

An average Nigerian inwardly believes that there are certain behaviours in contemporary Nigeria that do not attract guilt, although prohibited by law and the society's conventions. Corruption is particularly debilitating in the society, it promotes other illicit activities, yet permit me to say that every Nigerian is corrupt. There is a vicious cycle of corruption. The sudden wealth of anybody who comes into power or is ear power, the fact that most transactions come to involve giving and taking bribes, the fact that bribery goes unpunished most of the time. All of these tend to create and sustain the belief that crime pays and to encourage criminality in the general population. Thus, we find already that while averages Nigerian do not want to be a victim of theft, burglary, or robbery, he is always ready and willing to buy stolen goods. He does not want to be defrauded but he defrauds his government through tax evasion, inflated mileage and numerous other claims and by buying and relishing smuggled goods. He complains about police corruption but when he is caught, he orders bribe to policemen or taps "connections" to influence their exercise of discretion (Odekunle, 2001).

The illustration above depicts what the social situation in Nigeria generally looks like. Concluding from the theoretical postulation of Shaw & McKay's social disorganisation, it is noteworthy that the problem of crime and policing in Abraka town of Ethiope East Local Government Area in Delta State is a complex one. First, the heterogeneous nature of Abraka town has made it difficult for a particular set of cultural norms and values to be followed. In addition, the coexistence of both vigilante groups and the police makes crime prevention in the town more complex. Individuals and groups are divided in opinion with respect to the works and functions of these opposite security organisations. Hence an empirical and systematize investigation into the existence and operation of these groups especially their effectiveness efficiency in crime control in Abraka town is a challenging area of research.

## **Literature Review**

### *Research Methods*

The survey research method was employed in this study. The population of this study included the entirety of Abraka community which has a total population of 6,940 as at the last census with special interest being paid to those who are directly involved in community policing activities. Abraka, is one of the 25 Urhobo kingdoms in Delta state, Nigeria. Abraka is a town in Delta State, Nigeria. It is one of the main Urhobo community/clan. It is mostly known as a university town and has the main campus of the Delta State University Located there in Abraka. Abraka town is a favourite and fun filled destination for both domestic and international tourists. The Abraka beach is famous for its natural flowing spring water; it also has sports recreational facilities for outdoor activities like canoeing, fishing, swimming, barbecue, picnicking. For the purpose of this study, a sample size of one hundred and fifty (150) will be chosen by the researcher. The random sampling technique was employed in this study. This was used to give equal opportunity to all

respondents. Based on this method, one hundred and fifty (150) respondents were randomly selected from the population which cut across traditional rulers and chiefs, members of vigilante groups, community leaders, residents and community members. In order to ensure maximum objectivity in the analysis of the response obtained, it was important to adopt a statistical technique. For this reason, the researcher adopted the simple percentage statistical technique for the analysis of data collected.

The simple percentage is represented as follows:

$$\frac{x}{\text{Total Population}} \times \frac{100}{1}$$

### Data presentation and analysis

**Table 1: Socio-Demographic Distribution of Respondents**

	Social and Demographic Characteristics	Frequency	Percentage (%)
1.	<b>Sex</b>		
	Male	80	66.7
	Female	40	33.3
	<b>Total</b>	<b>120</b>	<b>100</b>
2.	<b>Marital Status</b>		
	Single	94	78
	Married	26	22
	<b>Total</b>	<b>120</b>	<b>100</b>
3.	<b>Occupation</b>		
	Civil-Servant	53	44
	Self-employed	36	30
	Unemployed	18	15
	Others	13	11
	<b>Total</b>	<b>120</b>	<b>100</b>

Source: Fieldwork, 2016.

From the socio-demographic table above, it was revealed that 80(66.7%) of the total respondents were male, while 40(33.3%) of the total respondents were female. From the distribution, it was also revealed that 94(78%) of the total respondents were single. However, 26(22%) of the respondents were married. Finally, from the distribution it was revealed that 53(44%) of the total respondents were civil servant, while 36(30%) were self-employed. However, 18(15%) of the total respondents were unemployed. Finally, 13(11%) of the total respondents had other forms of occupation.

### Analyses of Questionnaire Items

To address the research questions raised in this paper, responses to the questionnaire items were analysed by means of inferential statistics which includes simple percentages and the result of the chi square (X<sup>2</sup>) test. The results that emanated from the analyses in this section are presented in the following tables.

**Table 2: Analyses of Responses**

$X_{crit} = 7.815$

S/ N	QUESTIONS	RESPONSES				X <sup>2</sup>	DECISIO N
		SA	A	D	SD		
1	Only the Nigerian police can provide enough security in the state.	10 (8%)	25 (21%)	62 (52%)	23 (19%)	59.6 5	Reject
2	Vigilante groups and the community have a good relationship	38 (32%)	52 (43%)	25 (21%)	5 (4%)	137	Reject
3	Vigilante group's causes more harm to the community they protect.	11 (9%)	30 (25%)	60 (50%)	19 (16%)	1059	Reject
4	Low level of public confidence on the police is responsible for the rise of community policing	87 (72%)	21 (81%)	10 (8%)	2 (2%)	4514	Reject
5	The lack of capacity arising from inadequate funding of Nigerian police is responsible for community policing	16 (13%)	66 (55%)	29 (24%)	9 (08%)	1935	Reject
6	Community policing plays a good role in the security of the state	22 (19%)	58 (48%)	24 (20%)	16 (13%)	1080	Reject
7	There are negative effects of community policing in securing the state	32 (27%)	56 (47%)	21 (17%)	11 (9%)	1122	Reject

Source: Author's Computation, 2016.

The table above shows that 10(8%) respondents strongly agreed that only the Nigerian police can provide enough security in the state, while 25(21%) just agreed. However, 62(52%) respondents disagreed that only the Nigerian police can provide enough security in the state, while 23(19%) respondents strongly disagreed. Also, the table above indicate that 38(32%) respondents strongly agreed that vigilante group and the community have a good relationship, while 52(43%) just agreed. However, 25(21%) respondents disagreed that vigilante group and the community has a good relationship, while 5(4%) respondents strongly disagreed. Furthermore, from the table above, one would notice that 11(09%) respondents strongly agreed that vigilante group's caused more harm to the community they protect, while 30(25%) just agreed. However, 60(50%) respondents disagreed that vigilante group's caused more harm to the community they protect, while 19(16%) respondents strongly disagreed. Additionally, the table also shows that 87(72%) respondents strongly agreed that the lack of capacity arising from inadequate funding of the police is responsible for community police, while 21(18%) just agreed. However, 10(08%) respondents disagreed that low level of public confidence on the police is responsible for the rise of community policing, while 02(02%) respondents strongly disagreed.

Interestingly, the results in the above table indicated that 16(13%) respondents strongly agreed that the laxity of the Nigerian police force is responsible for the rise of community policing, while 66(55%) just agreed. However, 29(24%) respondents disagreed that the laxity of the Nigerian police force is responsible for the rise of community policing, while 9(8%) respondents strongly disagreed. Also, the table above shows that 22(19%)

respondents strongly agreed that community policing plays a good role in the security of the state, while 58(48%) just agreed. However, 24(20%) respondents disagreed that community policing plays a good role in the security of the state, while 16(13%) respondents strongly disagreed. Also indicated in the table above is the fact that 32(27%) of the respondents strongly agreed that there are negative effects of community policing in securing the state, while 56(47%) just agreed. However, 21(17%) respondents disagreed that there are negative effects of community policing in securing the state, while 11(9%) respondents strongly disagreed.

## **Findings**

Based on the results presented in Table 4.3, the following findings emerged from this study:

- i. It is evident that Nigerian Police alone cannot provide the needed security for communities and states generally.
- ii. Most stakeholders believe that a good relationship has been established between existing vigilante groups and their various communities, such that one cannot really say that such groups had caused more harm to the community which they were established to protect.
- iii. The increasing call for community policing resulted from the attendant problems like poor funding, low level of public confidence etc that may have plagued the Nigerian Police Force (NPF) in the past.
- iv. Community policing is believed to have a significant role to play in the security of the state.

## **Conclusion**

Community policing have become a significant force in the battle to reduce crime in Delta State. The role that community policing have played over the years in complementing the effort of the Nigerian Police Force in fighting crime cannot be entirely undermine. Following the objectives of this study which include assessing public perception of the vigilante groups in Abraka town, the people believed that these groups were effective in their function. The respondents are also of the view that they are quite satisfied with the work that funds used for the operation of these groups were actually gotten from members of the community. The findings of this research work reveal that community policing are an integral part of our society. However, the outcome of this work was actually the resident's opinion on vigilante and not that of these groups, so she will be careful not to make a generalization on the whole activities of these groups in Delta State.

## **Recommendations**

Following the major findings and conclusion of this study, the following recommendations were made:

- i. Community policing should be encouraged in the state owing to the important role it plays in the security of the state.
- ii. Community police/vigilante groups should be subjected to some form of training so as to enable them exhibit some level of professionalism.

- iii. Finally, though community policing has its pit falls, its importance cannot in any way be over emphasized due to the important role that it plays in the security of the state and at such should be sustained.

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## INVESTOR HOLDINGS AND SUSTAINABLE FINANCE PRACTICES IN INDIAN FIRMS

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**Abstract:** *This study explores the relationships between investor holdings, financial performance, and sustainable finance practices in Indian firms listed on the MSCI ESG index. Specifically, it examines the mediating role of Investor Perception by using the price-to-book (PB) ratio between return on assets (ROA) and CSR fund allocation, as well as climate-linked loans and bonds issued. Furthermore, the study investigates the moderating effects of a foreign institutional investor (FII) and domestic institutional investor (DII) holdings on these relationships. The research is grounded in the Resource-Based View, Stakeholder, Contingency, and Ambidexterity theories. A sample of 113 companies from the MSCI ESG index of India was analyzed using linear regression moderation and mediation, with market capitalization and firm age as control variables. The results indicate that the PB ratio significantly mediates the relationship between ROA and CSR fund allocation. The percentage of FII and DII holdings moderates the relationships between the PB ratio, CSR fund allocation, and climate-linked financing. The findings contribute to the existing literature on investor holdings and sustainable finance practices, offering valuable insights for managers, investors, and policymakers seeking to promote environmentally responsible practices and enhance financial performance. The study highlights the importance of aligning financial performance with sustainable finance practices and the role of institutional investors in shaping corporate sustainability initiatives.*

**Keywords:** *Sustainable finance practices, Investor holdings, Financial performance, MSCI ESG index*

### Introduction

Sustainable finance practices, including corporate social responsibility (CSR) initiatives and climate-linked financing, have gained significant attention in recent years as businesses and investors increasingly recognize the importance of addressing environmental, social, and governance (ESG) challenges (Carroll & Shabana, 2010; Scholtens, 2017). In the context of the Indian economy, firms listed on the MSCI ESG index serve as a benchmark for sustainable practices, illustrating a commitment to incorporating ESG factors into their business strategies (Nath & Ramanathan, 2018). The financial performance of companies is often linked to their engagement in sustainable finance practices, with research suggesting that firms with strong ESG performance tend to demonstrate better financial outcomes (Friede, Busch, & Bassen, 2015). This relationship may be attributed to factors such as enhanced reputation, increased operational efficiency, and improved risk management (Chen, Delmas, & Lieberman, 2015; Eccles, Ioannou, & Serafeim, 2014). However, the mechanisms underlying the associations between financial performance, investor holdings, and sustainable finance practices remain underexplored, particularly in the context of Indian firms listed on the MSCI ESG index.

This study aims to investigate the relationships between financial performance, investor holdings, and sustainable finance practices in Indian companies listed on the MSCI ESG index, focusing on the mediating role of the price-to-book (PB) ratio between return on

assets (ROA) and CSR fund allocation, as well as climate-linked loans and bonds issued. Furthermore, the study examines the moderating effects of a foreign institutional investor (FII) and domestic institutional investor (DII) holdings on the relationships between PB ratio, CSR fund allocation, and climate-linked financing (Busch & Lewandowski, 2018).

### **Literature review**

Corporate Social Responsibility (CSR) embodies the deliberate assimilation of ethical, environmental, and societal aspects within an enterprise's operational methodologies, strategic planning, and decision-making procedures (Carroll, 1991; Elkington, 1997). Essential constituents of CSR typically comprise environmental guardianship, civic engagement, workforce well-being, and virtuous corporate governance (Dahlsrud, 2008). CSR assumes a pivotal function in fiscal accomplishments and stakeholder rapport. By embracing responsible practices, organizations can cultivate affirmative associations with stakeholders, augment their standing, and mitigate potential perils, ultimately leading to enhanced financial performance (Orlitzky, Schmidt, & Rynes, 2003; Margolis, Elfenbein, & Walsh, 2009). Empirical substantiation supports the correlation between CSR and financial outcomes, with investigations revealing that firms with robust CSR endeavors generally display superior financial results (Friede, Busch, & Bassen, 2015; Wang, Choi, & Li, 2008). Climate-anchored financing pertains to fiscal instruments and mechanisms tailored to bolster climate change mitigation and adaptation endeavors, including green bonds, climate-related loans, and carbon credit trading (World Bank, 2018). The significance of climate-anchored financing resides in its capacity to marshal resources for tackling environmental predicaments, fostering sustainable development, and transitioning toward a low-carbon economy (Buchner et al., 2014). Climate-anchored financing can ameliorate environmental hazards and champion sustainable development by incentivizing the adoption of eco-friendly technologies, practices, and ventures (Galaz et al., 2018). Empirical validation regarding the relationship between climate-anchored financing and financial performance is scarce; however, some studies imply that green bonds and similar climate-related financial instruments may yield comparable or superior financial returns relative to conventional investments (Flammer, 2021; Jiang et al., 2022).

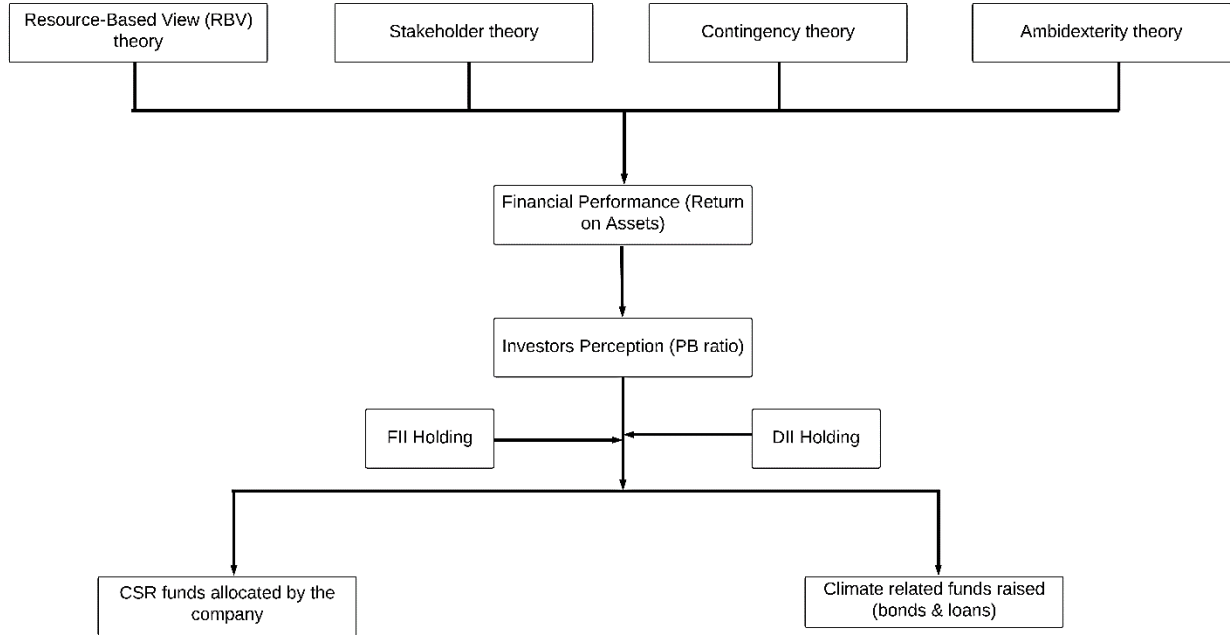
Return on Assets (ROA) constitutes a financial performance metric that appraises an enterprise's profitability by dividing net income by total assets (Jin & Sui, 2022). ROA exemplifies a firm's capacity to generate profits from its assets, offering insights into management's efficacy in employing resources to generate value (Kumar, 2009). Empirical substantiation suggests a positive correlation between ROA and sustainable finance practices. Companies with elevated ROA frequently exhibit a total commitment to CSR initiatives, as their heightened profitability empowers them to invest in socially responsible pursuits and long-term sustainability (Waddock & Graves, 1997; McWilliams & Siegel, 2000). The Price-to-Book (PB) ratio represents a financial performance metric that contrasts a company's market worth with its book value, calculated as the market price per share divided by the book value per share (Palepu et al., 2016). The PB ratio indicates market perception, reflecting investor anticipations regarding a firm's future growth and intrinsic value (Chen, 2017). Empirical validation concerning the relationship between the PB ratio and sustainable finance practices is inconclusive. Some investigations have identified a positive association, suggesting that enterprises with elevated PB ratios tend to

manifest more strong commitments to CSR initiatives and environmentally responsible practices, resulting in enhanced investor sentiment (Brammer & Millington, 2008; Hillman & Keim, 2001). Conversely, other studies have reported inconsistent or insignificant relationships, underscoring the necessity for additional research to comprehensively understand the underlying mechanisms and factors influencing this relationship (Surroca, Tribó, & Zahra, 2013)

Foreign Institutional Investors (FIIs), denoting organizations that allocate capital to financial markets outside their home countries (Aggarwal, Erel, Ferreira, & Matos, 2011), wield considerable influence in molding corporate sustainability practices. Their substantial financial resources and ability to sway corporate decision-making through shareholder voting rights underpin their critical role (Dyck, Lins, Roth, & Wagner, 2019). Moreover, by preferentially selecting firms adhering to ESG standards, FIIs can encourage superior ESG performance (Ferreira & Matos, 2008). Empirical evidence indicates a positive association between FII holdings and sustainable finance practices, as firms demonstrating robust ESG performance tend to attract increased FII investments (Dhaliwal, Li, Tsang, & Yang, 2011). Domestic Institutional Investors (DIIs) designate organizations investing in the financial markets of their home countries (Chung & Zhang, 2011). Analogous to FIIs, DIIs can impact corporate sustainability through investment choices and proactive engagement with company management (Boubaker, Nguyen, & Rouatbi, 2016). Certain studies reveal that DIIs exhibit a higher propensity to invest in companies with superior ESG performance, thus stimulating firms to adopt sustainable practices (Amel-Zadeh & Serafeim, 2018). However, empirical evidence concerning the relationship between DII holdings and sustainable finance practices still needs to be conclusive. Some studies suggest that DIIs prioritize ESG factors less than their foreign counterparts (Barko, Cremers, & Renneboog, 2018).

The Resource-Based View (RBV) theory postulates that an enterprise's competitive edge stems from its unique resources and capabilities (Barney, 1991). This theory is relevant to the study by implying that firms with formidable ESG performance may possess invaluable resources and capabilities, bolstering their financial performance and appeal to investors (Hart, 1995). Stakeholder theory contends that enterprises should factor in the interests of diverse stakeholders—including shareholders, employees, customers, and the broader society—in their decision-making processes (Freeman, 1984). This theory is germane to the study, as it emphasizes the role of investors, specifically FIIs and DIIs, in shaping corporate sustainability practices and resource allocation to ESG initiatives (Mitchell, Agle, & Wood, 1997). Contingency theory asserts that no universally optimal approach exists for organizing a firm, as ideal organizational structures and management practices hinge on each firm's unique circumstances (Donaldson, 2001). This theory's applicability to the study lies in the suggestion that the relationships between financial performance, investor holdings, and sustainable finance practices could be contingent on factors such as industry, firm size, and regulatory environment (Galbreath, 2010). Ambidexterity theory proposes that organizations should strike a balance between exploitation (efficiency and short-term gains) and exploration (innovation and long-term growth) to attain sustainable competitive advantage (Tushman & O'Reilly, 1996). This theory's relevance to the study arises from its emphasis on harmonizing financial performance with sustainable finance practices, navigating short-term profitability, and long-term value creation (Jansen, Van Den Bosch, & Volberda, 2006).

**Figure 1 Conceptual Framework**



Drawing on the literature review, the following hypotheses can be formulated for testing in the study:

H1 - PB ratio is a significant mediator between ROA and CSR fund allocated by the company  
 H2 -PB ratio is a significant mediator between ROA and Climate linked loans taken and bonds issued by the company

H3 - Percentage of FII holding moderated the relation between PB and CSR fund allocated by the company

H4 -Percentage of DII holding moderated the relation between PB and CSR fund allocated by the company

H5 - Percentage of FII holding moderated the relation between PB and Climate linked loans taken and bonds issued by the company

H6 - Percentage of DII holding moderated the relation between PB and Climate linked loans taken and bonds issued by the company

**Methodology**

*Sample Selection and Data Collection*

This study focused on Indian firms listed on the MSCI ESG index, a benchmark for companies committed to incorporating environmental, social, and governance (ESG) factors into their business strategies. 113 companies were selected for the analysis, representing various industries and market capitalizations. Data for the study were collected from multiple sources, including company annual reports, financial statements, and databases such as Bloomberg, Prowess, and the World Bank. Information on investor holdings, specifically foreign institutional investor (FII) and domestic institutional investor

(DII) holdings, was obtained from the respective regulatory filings and stock exchange disclosures.

*Variables and Measures*

The critical variables in this study were returned on assets (ROA), price-to-book (PB) ratio, CSR fund allocation, climate-linked loans and bonds issued, and the percentage of FII and DII holdings.

ROA was calculated as net income divided by total assets.

PB ratio was computed as the market price divided by the book value per share.

CSR fund allocation was measured as the total amount allocated to CSR initiatives during the study period.

Climate-linked loans and bonds issued were identified and quantified based on the information disclosed by companies.

The shareholding patterns disclosed in company reports determined the percentage of FII and DII holdings.

Market capitalization and firm age were included as control variables in the study.

*Data Analysis*

The data were analyzed using linear regression moderation and mediation tests. Linear regression was employed to examine the relationships between the critical variables in the study. Mediation tests were conducted to investigate the mediating role of the PB ratio between ROA and CSR fund allocation and climate-linked loans and bonds issued. Moderation tests were performed to assess the moderating effects of FII and DII holdings on the relationships between PB ratio, CSR fund allocation, and climate-linked financing.

*Validity and Reliability*

Several diagnostic tests were performed to ensure the validity and reliability of the findings. The assumptions of linearity, normality, and multicollinearity were assessed and addressed accordingly. The robustness of the results was tested through sensitivity analyses and additional regression models with alternative specifications.

By following this methodology, the study aimed to comprehensively understand the relationships between investor holdings, financial performance, and sustainable finance practices in Indian firms listed on the MSCI ESG index.

**Results**

**Table 1 Regression results of the mediating effect of Investor Perception**

<i>Variables</i>	<i>Model 1</i>	<i>Model 2</i>
<i>Controls</i>		
<i>Market Capitalisation</i>	.002***	0.001***
<i>Age</i>	0.403	0.887
<i>Predictors</i>		
<i>Financial Performance</i>	0.226	0.357
<i>Investors Perception</i>	.001***	0.271
<i>Financial Performance X Investors Perception</i>	.004***	0.276

This model represents the the p values obtained from the mediation analysis. (\*) p<0.1 (\*\*) p < 0.05 (\*\*\*) p < 0.01

The results of our linear regression analyses for mediation and moderation tests, controlling for market capitalization and firm age, are presented below. The outcomes offer valuable insights into the relationships between financial performance, investor holdings, and sustainable finance practices in Indian companies listed on the MSCI ESG index.

Hypothesis 1 (Table 1 – Model 1) posited that the Price-to-Book (PB) ratio significantly mediates the relationship between Return on Assets (ROA) and CSR fund allocation by the company. Our analysis supports H1, indicating that companies with higher financial performance, represented by ROA, tend to allocate more funds to CSR initiatives when considering their market valuation relative to book value (PB ratio).

Hypothesis 2 (Table 1 – Model 2) proposed that the PB ratio significantly mediates the relationship between ROA and climate-linked loans and bonds issued by the company. Our analysis does not support H2, suggesting that a firm's financial performance may not directly influence its engagement in climate-linked financing through the PB ratio.

**Table 2 Regression Results for moderation effects**

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>
<i>Variables</i>				
<i>Controls</i>				
<i>Market Capitalisation</i>	0.662	0.633	0.632	0.605
<i>Firm Age</i>	0.235	0.21	0.374	0.334
<i>Predictors</i>				
<i>Investors Perception</i>	-0.225	0.17	-0.178	0.1
<i>Moderators</i>				
<i>FII</i>	-0.055		-0.064	
<i>DII</i>		0.135		0.163
<i>FII X Investors Perception</i>	0.001*		0.017	
<i>DII X Investors Perception</i>		0.067***		0.140*
<i>R Squared</i>	0.06	0.122	0.038	0.061
<i>Adjusted R Squared</i>	0.033	0.097	0.011	0.035
<i>F-Value</i>	2.244	4.937	1.4	2.351
<i>Change in R square</i>	0.06	0.122	0.038	0.061

The values given in the table are the r-values obtained from the regression-moderation analysis. (\*) p<0.1 (\*\*) p < 0.05 (\*\*\*) p < 0.01

For Hypothesis 3 (Model 1 – Table 3) and Hypothesis 4 (Model 2 – Table 3), we investigated the moderating effects of Foreign Institutional Investors (FII) and Domestic Institutional Investors' (DII) holdings on the relationship between the PB ratio and CSR fund allocation by the company. Our results support both H3 and H4, indicating that the presence of institutional investors affects the extent to which the PB ratio influences CSR fund allocation.

Hypothesis 5 (Model 3 – Table 3) and Hypothesis 6 (Model 4 – Table 3) examined the moderating effects of FII and DII holdings on the relationship between the PB ratio and



climate-linked loans and bonds issued by the company. Our analysis supports H6, suggesting that DII holdings moderate this relationship. However, the results do not support H5, implying that FII holdings do not significantly affect the relationship between the PB ratio and climate-linked loans and bonds issued by the company.

Our findings reveal significant relationships and moderating effects for most hypotheses except for H2 and H5. These results provide a better understanding of the factors that drive companies' decisions to allocate resources to CSR activities and engage in climate-linked financing, contributing to the literature on sustainable finance and corporate social responsibility.

## **Discussions and Conclusion**

The discoveries of this study yield valuable insights into the interconnections among investor holdings, financial performance, and sustainable finance practices in Indian firms listed on the MSCI ESG index. Specifically, the outcomes underscore the mediating function of the price-to-book (PB) ratio between return on assets (ROA) and CSR fund allocation, as well as the moderating influences of a foreign institutional investor (FII) and domestic institutional investor (DII) holdings on these relationships. Our findings corroborate the positive association between financial performance and CSR fund allocation, in line with prior studies (Jo & Harjoto, 2011; Wang et al., 2016). However, our investigation augments the extant literature by emphasizing the mediating role of the PB ratio in this association. This discovery implies that companies exhibiting superior financial performance, as determined by ROA, possess a higher PB ratio, which subsequently impacts their CSR fund allocation. This outcome suggests that better-performing firms are more inclined to invest in CSR initiatives, enhancing their market value and attracting more investors.

Moreover, our results demonstrate that the proportion of FII holdings moderates the association between the PB ratio and CSR fund allocation. DII holdings moderate the connection between the PB ratio, climate-linked loans, and bond issuance. This finding concurs with research positing that institutional investors, especially FIIs, wield considerable influence on corporate sustainability practices (Lourenço et al., 2012). Our study contributes to this body of knowledge by elucidating the distinct roles of FII and DII holdings in shaping sustainable finance practices among Indian firms. The substantial mediating effect of the PB ratio between ROA and CSR fund allocation may be ascribed to the perception that firms exhibiting higher financial performance can invest in CSR activities without jeopardizing profitability. This concept is buttressed by the Resource-Based View theory, which contends that firms with ample resources are more prone to engaging in sustainability practices that generate value for stakeholders (Barney, 1991; Hart, 1995).

The moderating influences of FII and DII holdings on the relationships between the PB ratio, CSR fund allocation, and climate-linked financing can be explicated by the Stakeholder theory (Freeman, 1984) and the sway of institutional investors on corporate decision-making. As pivotal stakeholders, FIIs and DIIs may pressure firms to adopt sustainable finance practices to fulfill their expectations and mitigate potential risks associated with environmental and social concerns. Furthermore, the Contingency theory (Donaldson, 2001) posits that aligning a firm's strategic choices with its external

environment, encompassing investor preferences, may culminate in improved financial performance.

#### *Theoretical Contribution*

This investigation presents several noteworthy theoretical advancements to the literature on sustainable finance, corporate social responsibility, and the impact of financial ratios and investor holdings on firms' decisions about sustainability. Firstly, the present research augments the Resource-Based View (RBV) theory (Barney, 1991; Wernerfelt, 1984) by illustrating how financial performance, as evidenced by ROA, impacts CSR fund allocation through the mediating role of the PB ratio. This discovery posits that organizations exhibiting exceptional financial performance may assign increased resources to CSR endeavors, fortifying their competitive advantage through intangible resources such as reputation and stakeholder trust (Hart, 1995). Secondly, the investigation broadens the Stakeholder theory (Freeman, 1984; Mitchell, Agle, & Wood, 1997) by scrutinizing the moderating effects of FII and DII holdings on the relationship between the PB ratio and CSR fund allocation. Our observations reveal that institutional investors significantly influence firms' CSR initiatives, congruent with the idea that stakeholders can sway corporate decision-making in addressing social and environmental issues (Hillman & Keim, 2001). Thirdly, the inquiry enhances the understanding of the Contingency theory (Donaldson, 2001; Van de Ven & Drazin, 1985) by demonstrating that the influence of financial performance on climate-related loans and bonds issuance lacks mediation by the PB ratio. This outcome accentuates the context-specific connection between financial performance and sustainable finance practices, suggesting that alternative factors hold greater relevance in steering firms' engagement in climate-related financing. Lastly, our analysis offers insights into the Ambidexterity theory (Gibson & Birkinshaw, 2004; Tushman & O'Reilly, 1996) by disclosing that institutional investors can moderate the relationship between financial ratios and sustainable finance practices. The findings imply that organizations must navigate the competing demands of financial performance and sustainability, considering the sway of external stakeholders, such as FII and DII, in shaping their strategic resolutions.

#### *Managerial Implications*

The findings of this study present several vital implications for executives of Indian firms listed on the MSCI ESG index. A thorough comprehension of the interrelations among financial performance, investor holdings, and sustainable finance practices can empower managers to make informed decisions regarding CSR fund distribution and engagement in climate-related financing. Firstly, the investigation discloses that the PB ratio mediates the connection between ROA and CSR fund allocation (Baron & Kenny, 1986), suggesting that companies with superior financial performance tend to assign more funds to CSR initiatives when considering their market valuation relative to book value. Consequently, managers must acknowledge the significance of harmonizing financial performance with CSR initiatives, as investors might regard companies exhibiting strong financial performance and dedication to CSR activities more positively (McWilliams & Siegel, 2001). Secondly, the outcomes illustrate that the PB ratio does not significantly mediate the association between ROA and climate-linked loans and bond issuance. Even though financial performance may not directly affect firms' decisions to participate in climate-related financing, managers should still contemplate the escalating importance of climate-

related financing instruments, as they can substantially contribute to addressing climate change and fostering sustainable development (Ehlers & Packer, 2017). Thirdly, the study emphasizes the significance of investor composition in shaping firms' CSR choices. It demonstrates that FII and DII holdings moderate the relationship between the PB ratio and CSR fund allocation (Busch & Lewandowski, 2018). As a result, managers ought to consider the preferences and expectations of institutional investors when allocating resources to CSR endeavors, given the considerable influence they may wield over corporate sustainability practices (Dixon-Fowler et al., 2013). Lastly, although the findings do not signify a substantial moderating effect of FII holdings on the relationship between the PB ratio and climate-linked loans and bonds issuance, they underscore the importance of fostering open communication with institutional investors. By engaging with institutional investors and discerning their preferences, managers can more effectively align their sustainability strategies with investor expectations, potentially bolstering their firm's reputation and long-term financial performance (Grewatsch & Kleindienst, 2017).

#### *Limitations and further research*

This study offers valuable insights into the interplay between financial performance, investor holdings, and sustainable finance practices in Indian companies listed on the MSCI ESG index. However, certain limitations warrant acknowledgment and opportunities for future research. One limitation is the relatively small sample size of 113 companies, which may not represent the entire Indian market. Future research could expand the sample size, encompassing a broader range of companies, sectors, and market capitalizations, to generalize the findings better. Additionally, the cross-sectional design employed in this study may not capture the dynamic nature of the relationships under investigation. Longitudinal studies could help uncover the temporal aspects of these relationships, revealing potential changes over time.

#### **Conclusion**

This study investigated the relationships between financial performance, investor holdings, and sustainable finance practices in Indian companies listed on the MSCI ESG index. Specifically, it examined the mediating role of the PB ratio between ROA and CSR fund allocation and climate-linked loans and bonds issued. Additionally, the study explored the moderating effects of FII and DII holdings on the relationships between PB ratio, CSR fund allocation, and climate-linked financing. The findings revealed that the PB ratio significantly mediated the relationship between ROA and CSR fund allocation, emphasizing the importance of aligning financial performance with CSR initiatives. However, the PB ratio did not significantly mediate the relationship between ROA and climate-linked loans and bonds issued, suggesting that financial performance may not directly influence firms' decisions to engage in climate-linked financing. The study also found that FII and DII holdings moderated the relationship between the PB ratio and CSR fund allocation, highlighting the crucial role of investor composition in shaping companies' CSR decisions.

Despite its limitations, this study contributes to the existing literature on financial performance, investor holdings, and sustainable finance practices, providing valuable insights for managers, investors, and policymakers. By understanding the complex

relationships between financial ratios, investor holdings, and sustainability initiatives, managers can make more informed decisions that promote long-term growth and value creation for their firms and stakeholders. Furthermore, the findings underscore the importance of engaging with institutional investors and aligning sustainability strategies with investor expectations, potentially enhancing firms' reputation and long-term financial performance.

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## IS INTERNATIONAL DIVERGENCE FROM WIDE STOCK OWNERSHIP DISPERSION AN OPTIMAL CORPORATE OUTCOME?

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**Abstract:** *We design a model of corporate ownership and control to assess Berle-Means convergence toward diffuse incumbent stock ownership. Berle-Means convergence occurs when legal institutions for investor protection outweigh in relative importance the firm-specific protection of shareholder rights. While these arrangements are complementary sources of investor protection, Berle-Means convergence draws the corporate outcome to the socially optimal quality of corporate governance. High ownership concentration creates perverse incentives for inside blockholders to steer major business decisions to the detriment of both minority shareholders and outside blockholders. Our analysis sheds skeptical light on high insider stock ownership with managerial entrenchment and rent protection.*

**Keywords:** *dynamic convergence of Berle-Means incumbent stock ownership dispersion; law and finance; corporate governance; investor protection; managerial entrenchment; rent protection.*

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### Introduction

Adolf Berle and Gardiner Means's (1932) seminal work serves as the canonical qualitative basis for the separation of corporate ownership and control. Their primary thesis has set the mainstream foundation of corporate governance research for legal scholars, practitioners, and economists over 90 years. In line with this Berle-Means thesis, corporate control over physical assets responds to a centripetal force and concentrates in the hands of only a few incumbents, whereas, corporate ownership is centrifugal, splits into small units, and passes from one person to another (Berle and Means, 1932: 9). In the Berle-Means image of the modern corporation, executives and directors gain their income primarily from the effort that these incumbents put into business decisions, but not from

the return on their stock investment in the enterprise. To the extent that corporate structures evolve in response to competitive pressures in the capital markets, the Berle-Means thesis predicts gradual convergence toward diffuse equity ownership as the most efficient form. In this paper, we design and develop a model of corporate ownership and control to assess the theoretical plausibility of Berle-Means convergence toward dispersed incumbent stock ownership. To the best of our knowledge, this study is the first mathematical analysis of whether Berle-Means convergence is optimal. Further, this analysis delves into whether Berle-Means convergence is desirable from the social planner's perspective. A subsequent analysis explores the equilibrium interplay between inside blockholders and minority shareholders.

The core analytical results suggest that Berle-Means convergence occurs when legal institutions for investor protection outweigh in relative importance firm-specific asset protection of investor rights. While legal and firm-specific asset arrangements are complementary sources of investor protection, Berle-Means convergence toward dispersed incumbent stock ownership draws the corporate outcome to the socially optimal quality of corporate governance. High incumbent stock ownership creates perverse incentives for inside blockholders to steer corporate decisions to the detriment of minority shareholders. In the current study, we extend and generalize Yeh, Lim, and Vos's (2007) baseline model of Berle-Means convergence with the constant elasticity of substitution (CES) production function in comparison to the Cobb-Douglas special case. While the first proposition remains the same in this more general CES production function, several new analytical results include institutional complementarities, socially optimal incumbent equity ownership stakes, and persistent deviations from Berle-Means stock ownership dispersion in equilibrium. The latter result is an equilibrium subpar outcome in the corporate game with information asymmetries between inside blockholders and minority shareholders. These novel propositions serve as the theoretical basis for subsequent empirical analysis. The appendices provide the complete mathematical derivation.

Our analysis rests on the fundamental concept that corporate insiders can often steer key business decisions at the detriment of minority shareholders. The corporate governance literature is replete with examples of deliberate use of managerial power that leads to a deterioration in firm value. For instance, incumbents may engage in earnings management prior to major corporate events such as initial public offerings (Teoh, Welch, and Wong, 1998a), seasoned equity offerings (Teoh, Welch, and Wong, 1998b), stock-for-stock mergers (Erickson and Wang, 1999; Louis, 2004), and open-market repurchases (Gong, Louis, and Sun, 2008). Also, corporate managers tend to opportunistically time the stock market through equity issuance when the firm's market value is high relative to its book value or past market values (e.g. Jung, Kim, and Stulz, 1996; Pagano, Panetta, and Zingales, 1998; Baker and Wurgler, 2002; Huang and Ritter, 2009). In addition, abnormal stock returns tend to arise as a result of corporate events that are associated with asset expansion or contraction (e.g. Loughran and Ritter (1995), Ikenberry, Lakonishok, and Vermaelen (1995), Loughran and Vijh (1997), Titman, Wei, and Xie (2004), Anderson and Garcia-Feijoo (2006), Fama and French (2006), and Cooper, Gulen, and Schill (2008)). Incumbent blocks of stock further facilitate this managerial rent-protection mechanism that drives business decisions to benefit inside blockholders (e.g. Bebchuk, 1999; Bebchuk and Roe; 1999; Dyck and Zingales, 2004). In this context, the desire for retaining private benefits of control may induce incumbents to introduce corporate arrangements such as



poison pills and board classifications to insulate directors and executives from the influence of outside blockholders (Shleifer and Vishny, 1986; Bebchuk, Coates, and Subramanian, 2002; Bebchuk and Cohen, 2005; Bebchuk and Kamar, 2010; Bebchuk and Jackson, 2012; Bebchuk, 2013; Bebchuk, Brav, and Jiang, 2015). In summary, both managerial power and entrenchment are essential ingredients in our analysis of the equilibrium interplay between inside blockholders and minority shareholders. This interplay can shed light on whether the Berle-Means image of the modern corporation is sustainable near the social optimum. This study provides a theoretical model of the dynamic evolution of corporate ownership and governance structures over time. This model is general enough to encapsulate both arguments for and against Berle-Means convergence as special cases. In the context of equilibrium interplay between inside blockholders and minority shareholders, the model predicts that the former obtain a positive rent from their large blocks of stock by having both corporate power and influence to steer business decisions while the latter maintain a neutral utility threshold. Insofar as incumbents seek and secure economic rent in the corporate game, this equilibrium interplay persists as a non-trivial deviation from the social optimum. Berle-Means convergence toward diffuse incumbent stock ownership hence may or may not materialize due to the unilateral tilt of both legal and firm-specific asset arrangements for investor protection. In summary, our mathematical analysis sheds skeptical light on high insider stock ownership with managerial entrenchment and rent protection.

The remainder of this paper follows the structure below. Section 2 offers a review of the literature on corporate ownership and control. This literature review details the ubiquitous arguments for and against Berle-Means convergence toward diffuse incumbent stock ownership. Section 3 offers a unified theory of Berle-Means convergence versus path dependence in corporate ownership and governance structures. Our model offers new insights into the conditions for Berle-Means convergence with respect to both legal and firm-specific arrangements for investor protection. This unified theory analyzes whether Berle-Means convergence contributes to the overall quality of corporate governance. Also, Section 3 extends the baseline model to evaluate the equilibrium interplay between inside blockholders and minority shareholders. Section 4 concludes and offers several key testable propositions for subsequent empirical research.

## **Literature review**

In this section, we review the relevant literature on Berle-Means convergence toward dispersed incumbent stock ownership. The Berle-Means thesis suggests that the inexorable separation of corporate ownership and control leads to a conflict of interest between incumbents and shareholders (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983, 1985). As businesses grow in size and complexity and shareholders increase in number, incumbent stock ownership becomes proportionally smaller. Both corporate executives and directors derive income largely from the returns on their effort as incumbents, not from their equity investment in the corporation. As a result, the gradual dilution of incumbent equity ownership suggests a unique form of Berle-Means convergence toward diffuse stock ownership.

The literature provides polemic and divergent views of Berle-Means convergence. On the one hand, the neoclassical convergence hypothesis suggests that Berle-Means convergence

arises as a natural result of competitive pressures in seeking to reduce agency costs and managerial slack. On the other hand, there are path-dependent forces that prohibit Berle-Means convergence. The reasons for this path-dependency include politics, managerial rent protection, asset specificity, and social norms of fairness and trust. For the practical purposes of this study, we attempt to encapsulate both sides of the debate in a simple model of corporate ownership concentration. This analysis motivates several testable hypotheses for subsequent empirical research and in turn has pivotal policy implications for corporate governance.

*The neoclassical convergence hypothesis*

*The delegation of corporate power to directors as an efficient control mechanism*

A prominent strand of literature suggests that most common-law countries outperform civil-law countries in promoting an amicable environment for financial markets to prosper in terms of market valuation (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1997, 1998, 1999, 2002; Demirguc-Kunt and Maksimovic, 1998; Acemoglu and Johnson, 2005; La Porta, Lopez-de-Silanes, and Shleifer, 2006, 2008). Also, several studies find evidence in support of a positive relationship between stock market development and several broad measures of economic growth (Levine and Zervos, 1998; Bekaert, Harvey, and Lundblad, 2005; Brown, Martinsson, and Petersen, 2013). The U.S., the U.K., and most other OECD countries with Berle-Means corporations represent a lion's share of the value of the global stock market. In these economies, shareholders delegate the monitoring role to directors. Effective directorship imposes limits on self-interested managers' attempts to divert corporate resources in a way that erodes shareholder value. This mechanism allows investors to rely upon directors' judgment in monitoring management. In turn, the close alignment of shareholder and director interests helps reduce agency costs in pursuit of shareholder wealth maximization (Fama, 1980; Demsetz, 1983; Easterbrook and Fischel, 1991). This corporate control mechanism prevails in many OECD countries and includes examples such as independent directors, fiduciary duties of care and loyalty, takeovers, executive pay arrangements, shareholder rights against director deviance, and social norms of sound corporate conduct.

Just as the founders of a corporation have incentives to employ state-of-the-art technology or efficient means of production, incumbents face incentives to build the ownership and governance structures that investors prefer. There can be an optimal nexus of contracts between incumbents and shareholders when directors and managers receive compensation in the form of stock-based pay (Jensen and Meckling, 1976; Jensen, 1986). This kind of executive compensation helps resolve the inherent conflict of interest between shareholders and incumbents. In this view, incumbents serve in the best interests of shareholders most of the time to receive better prices for corporate securities. Better investor protection encourages accurate stock price discovery, efficient corporate investment, and better access to external finance (McLean, Zhang, and Zhao, 2012). Competitive forces and market dynamics result in the natural selection of corporate arrangements in a Darwinian evolution. This dynamic characterization suggests that corporate ownership and governance structures should gravitate toward the most efficient form.

Since investors provide capital to corporations and delegate managerial power to incumbents, insofar as there are sound legal institutions that effectively protect shareholder

rights, the primary role of investors is to offer liquidity to corporations. By holding small equity stakes, investors and some incumbents inject capital into more corporations and as a result reap risk-sharing benefits (Fama and Jensen, 1983, 1985; Coffee, 1991, 2001). Because shareholders can discipline management via a variety of corporate control mechanisms, dispersed stock ownership for both investors and incumbents is likely to survive the test of time in the stock-market-oriented model.

*The recent rise of fractional corporate ownership*

The stock-market-oriented model creates a positive externality to investors and corporations. Investors spread their equity stakes across a portfolio of industries or corporations to reap diversification benefits. Corporations use equity and some other sources of funds to implement their valuable investment projects. Both parties are better off and experience a Pareto improvement. Further, there is an inevitable trade-off between liquidity and control (Coffee, 1991; Maug, 1998). Investors may voluntarily choose to forego their control over management and then retain the option to liquidate diffuse shares. Insofar as investors hold well-diversified stock portfolios, any specific loss can be offset by higher returns on other individual stocks for the median investor to perform well. Most investors' preference for liquid equity stakes in turn leaves the effective monitoring role to directors. This preference for liquidity results in the rise of diffuse stock ownership for incumbents and minority shareholders (Coffee, 2001). Berle-Means convergence to greater stock ownership dispersion can be viewed as a step toward the efficient ownership structure.

*The global trend of systemic adaptation and emulation*

The increasing globalization of financial markets is often viewed as another competitive force that drives convergence to the Berle-Means image of the modern corporation. Multinational corporations attempt to attain global scale to opt into high-quality regimes of securities regulation. The U.S. and U.K. landscapes are examples of regimes that enhance both transparency and fiduciary protection (Coffee, 1999, 2002). A key feature of the stock-market-oriented model is its adaptability to systemic changes. Deep and liquid stock markets that emphasize shareholder interests facilitate timely responses during a period of financial stress (Cunningham, 1999). These strong and responsive stock markets serve as an external monitor in the form of ubiquitous analyst forecasts or cross-border mergers and acquisitions (Gordon, 1999). Also, self-regulation can arise from a desire to emulate a set of best practices in corporate governance because many OECD countries with Berle-Means corporations have performed well in comparison to their East Asian and continental European counterparts, the latter of which deviate from the stock-market-oriented model (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1999; Claessens, Djankov, and Lang, 2000). In addition, the recent evidence suggests that many non-U.S. corporations choose to cross-list on the U.S. stock exchanges to subject management to stricter disclosure requirements and governance standards in a way that reduces private benefits of control (Reese and Weisbach, 2002). In summary, the global trend of systemic adaptation and emulation represents another route for Berle-Means convergence toward diffuse fractional stock ownership.

## **The path dependence story**

### *The political theory of corporate finance*

Politics can confine the terrain on which the large enterprise may evolve (Roe, 1991, 2000). This confinement subsequently shapes the efficient form of corporate ownership to which the large enterprise adapts. Also, this confinement gives rise to specific power-sharing arrangements. For instance, U.S. populism suggests that no institution should have significant financial power (Lipset and Schneider, 1987; Roe, 1991; Acemoglu, Johnson, and Robinson 2001; Johnson and Kwak, 2010). This pervasive belief can be the root cause of anti-bank sentiment in America (Johnson and Kwak, 2010; Admati and Hellwig, 2012). The mistrust of financial power may have contributed to the unequivocal case for laws that limit financial institutions' stock ownership (Black, 1990; Roe, 1991; Coffee, 1991, 1999, 2001, 2002). To satisfy the large corporation's capital needs, fractional shares arise as a solution. This fragmentation of equity stakes promotes a shift in corporate power from financial institutions to incumbents (Roe, 1993, 1994). In turn, politics shapes the prevalent ownership structure, and this ownership structure affects the internal power-sharing arrangements in the corporate context. The Berle-Means separation of ownership and control is thus a natural reality in American corporations (Roe, 1998: 217, 241).

In Japan and Germany, however, investors are much more tolerant of financial institutions' involvement in corporate affairs (Roe, 1993: 1936). Many of these financial institutions hold large blocks of stock to exert control and influence over management. Authority seems to be shared among incumbents and large shareholders in German and Japanese corporations (Roe, 1993: 1941-1946). The blockholder mechanism in Japan and Germany differs significantly from the

U.S. Berle-Means image of the modern corporation. In light of the structural differences, the political theory of corporate finance implies a schematic process. Politics sets the asymptotes of financial institutions' reach in stock ownership. These asymptotes impart the conditions for the separation of ownership and control. Thereby, political forces help shape corporate ownership and governance practices. To the extent that these forces appear to persist over time, complete Berle-Means convergence in corporate structures may not come to reality.

### *The rent-protection theory of corporate ownership and control*

The size of private benefits of control plays a role in the determination of corporate ownership structure. Private benefits of control are those benefits that accrue to incumbents, who have effective control of the corporation, but not to minority shareholders (Reese and Weisbach, 2002). Examples include business connections, large office suites, corporate jets, executive retreats, and many other perquisites. Leaving corporate control up for grabs may attract attempts to acquire the company by rivals who seek to capture private benefits of control (Bebchuk, 1999). This phenomenon is more pronounced when private benefits of control are large. In these circumstances, incumbents may keep a lock on control by choosing to hold concentrated equity stakes (Bebchuk, 1999: 1-2; Dyck and Zingales, 2004). This concentrated ownership structure then serves as an antidote to potential takeover bids. In addition, the desire for keeping private benefits of corporate control may induce incumbents to introduce corporate arrangements such as poison pills and board classifications to insulate directors and executives from the direct influence of outside

blockholders (Shleifer and Vishny, 1986; Bebchuk, Coates, and Subramanian, 2002; Bebchuk and Cohen, 2005; Bebchuk and Kamar, 2010; Bebchuk and Jackson, 2012; Bebchuk, 2013; Bebchuk et al, 2015).

According to the rent-protection theory, concentrated ownership tends to prevail in corporate regimes where private benefits of control are large. Examples are Brazil, Russia, India, and China (BRIC), Mexico, Indonesia, Nigeria, and Turkey (MINT). Brazil, Russia, India, and China are widely known as the BRIC countries. Mexico, Indonesia, Nigeria, and Turkey are known as the MINT countries. Portugal, Italy, Greece, and Spain are commonly known as the PIGS countries. The less well-known countries that are expected to be the next generation of fast-growing countries with poor corporate governance, high political risk, and young and diverse population are Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa (CIVETS). The genesis of these acronyms arises from a November 2001 paper on better global economic BRICs written by Goldman Sachs's former chairman and economist Jim O'Neill.

These regimes lack legal institutions that deter managerial rent protection. East Asian corporations provide another example of rent protection. More than two-thirds of East Asian corporations are under a single shareholder's direction, and this dominant shareholder is usually a family group (Claessens, Djankov, and Lang, 2000: 82-84, 94, 110). In contrast, concentrated stock ownership is likely to wane in countries that have robust legal rules and institutions in place to curtail private benefits of control (Bebchuk, 1999: 3-4, 37).

Private benefits of control are usually higher in corporations that do not cross-list their securities abroad (Doidge, 2004; Reese and Weisbach, 2002; Doidge, Karolyi, Lins, Miller, and Stulz, 2009). When private benefits of control are large, corporate insiders face incentives not to subject the corporation to stricter disclosure rules and other listing requirements. Incumbents would retain a lock on control if the probable gain in the present value of cross-listing abroad falls short of the likely loss in private benefits of control. To the extent that private benefits of control create perverse incentives for incumbents to keep a lock on control by holding large equity blocks, the rent-protection theory suggests that cross-country differences in corporate ownership and governance are likely to persist over time.

#### *A nexus of firm-specific asset investments in comparison to a nexus of contracts*

In contrast to the neoclassical hypothesis that a corporation is a nexus of contracts between shareholders and incumbents, the team production theory suggests that a corporation can be viewed as a nexus of firm-specific investments (Blair and Stout, 1999: 247, 275). This theory suggests that a corporation is normally structured to promote stakeholder value instead of shareholder wealth. Each team member devotes highly specialized and irrevocable effort to corporate affairs. Employees carry out day-to-day operational tasks and assignments. Executives organize and oversee employee performance. Creditors and stock owners inject capital to support the corporation's investment projects. As a hierarchical intermediary, the board of directors integrates all these endeavors to make the whole bigger than the sum of the parts (Rajan and Zingales, 1998). Each team member's expertise has little value outside the joint enterprise, and nobody leaves this enterprise and realizes the value of his or her investment in full.

The above observation suggests that the individual investments are all complementary in nature. In the corporate context, the status quo tends to be one of multiple optima. If large adjustment costs are required for a corporation to move to an alternative optimum, continuance is often efficient (Bebchuk and Roe, 1999: 139-142). Hence, the extant ownership and governance patterns are only second-best options. For instance, Russian investors may prefer government control of large corporations because few legal rules protect shareholder rights. In this case, government control is a second-best option and thus serves as an alternative form of investor protection in Russia (Frye and Shleifer, 1997; Shleifer and Treisman, 2005). If a structural shift toward first-best structures (such as less government control with better legal protection of shareholder rights) requires substantial adjustment costs and then leads to third-best outcomes, it may be better to maintain the status quo. This rationale suggests that complementary corporate ownership and governance structures are likely to persist over time.

#### *Social norms of fairness and trust*

Social norms of fairness and trust help shape the path of corporate ownership and governance structures (Blair and Stout, 2001; Coffee, 2001; Licht, 2001). In corporate governance, the rules of the game often depend on what is perceived to be fair. Stakeholders view a peculiar distribution of corporate wealth and power as unfair if this distribution departs substantially from the terms of a reference transaction, which is the transaction that defines the benchmark for corporate interactions (Jolls, Sunstein, and Thaler, 1998). Due to cultural differences, the reference transaction may vary from country to country. For instance, American culture typically resists hierarchy and centralized authority more than French culture (Bebchuk and Roe, 1999: 168-169). Codetermination reflects the need for a fair go for employees in Germany (Roe, 1993: 1942-1943). Political connections matter a great deal to Chinese CEOs in several major corporate decisions, whereas, these connections generally have a negative effect on corporate performance in terms of post-IPO earnings growth, sales growth, or profit margin (Fan, Wong, and Zhang, 2007). In East Asia, some large corporations often find it necessary to bribe senior bureaucrats to seek protection in the form of exclusive trade rights, commercial privileges, and preferential government contracts (Claessens, Djankov, and Lang, 2000). Also, several East Asian and Italian large corporations regard family involvement as an indispensable value driver (Claessens, Djankov, and Lang, 2000: 82-84; Licht, 2001). All of these social norms of fairness set the informal reference transactions or rules of the game. These informal rules create certainty for stakeholder interactions.

Firm-specific fairness norms help enhance the corporation's efficiency due to more cooperation and less opportunism among its stakeholders (Cooter and Eisenberg, 2000). The gradual internalization of fairness norms incentivizes stakeholders to trust one another in the nexus of firm-specific investments (Blair and Stout, 2001: 1807-1810). How willing stakeholders are to trust others shapes the initial ownership and governance arrangements in the corporate context (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1997b). Nevertheless, trust per se does not necessarily facilitate Berle-Means convergence. Because there can be substantial heterogeneity in social norms of fairness and trust, what is viewed as fair in Japan may not be equally fair in Australia, and similarly, German codetermination may not be a suitable solution to the agency problem that New Zealand corporations face. To the extent that social norms of fairness and trust diverge from country

to country, this divergence suggests that corporate ownership and governance structures may continue to differ over time.

### *Synthesis and summary*

The literature review has framed both sides of the debate on Berle-Means convergence. The neoclassical hypothesis and the path-dependence story both have their merits and thus need not be viewed as mutually exclusive. While the path dependence story suggests that the level of incumbent stock ownership concentration at any point in time depends on the initial condition, this static relation may not constitute the full picture. The neoclassical hypothesis may better describe the dynamic part of the picture that multinational corporations can adhere to higher standards of corporate governance by cross-listing their stocks abroad, by diversifying their portfolios via cross-border mergers and acquisitions, or by self-regulating corporate affairs in the presence of dispersed incumbent stock ownership. In light of this synthesis, we seek to develop a mathematical model to integrate both sides of the Berle-Means debate to depict a more holistic picture.

### **Theory**

In the current study, we generalize Yeh, Lim, and Vos's (2007) baseline model of Berle-Means convergence with the constant elasticity of substitution (CES) production function in comparison to the Cobb-Douglas special case. While the first proposition remains the same in this more general CES production function, several new analytical results include institutional complementarities, socially optimal insider ownership stakes, and persistent deviations from Berle-Means corporate ownership dispersion in equilibrium. This latter result is an equilibrium sub-optimal outcome in the corporate game with information asymmetries between inside blockholders and minority shareholders. These novel propositions serve as the theoretical basis for subsequent empirical analysis. The appendices provide the complete mathematical derivation. We derive a mathematical model to characterize the relationship between incumbent stock ownership and legal and firm-specific arrangements that are designed to protect investor rights. Incumbents can commit to lower rates of value diversion by holding a substantial fraction of equity in the company (Himmelberg, Hubbard, and Palia, 1999: 357-358). In this case, stock ownership entails an inexorable trade-off between bonding incentives and risk-sharing benefits for incumbents. How these incumbents evaluate and balance this trade-off determines the severity of agency costs. Legal institutions that protect shareholder rights to corporate securities can well tilt this trade-off in favor of more dispersed stock ownership. This result is due to the fact that strong legal protection of shareholder rights enhances the value of equity in the corporation (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1999, 2002; La Porta, Lopez-de-Silanes, and Shleifer, 2006, 2008). Legal rules and institutions that enhance long-term access to stock market finance with better protection of shareholder rights help spur real investment growth in research and development (Brown, Martinsson, and Petersen, 2013). Also, better legal protection of shareholder rights encourages accurate stock price discovery, efficient capital investment, and better access to external finance (McLean, Zhang, and Zhao, 2012). Incumbents in particular, and outside investors in general, prefer to hold a well-diversified portfolio of stock investments across a myriad of

industries instead of concentrated blocks of stock in only a few companies. In accordance with this rationale, investor-friendly legal remedies can at least partly affect the equilibrium level of incumbent stock ownership dispersion.

Asset specificity also plays a role in setting the equilibrium level of insider stock ownership dispersion. Highly specific assets such as research labs, factories, plant, property, and equipment require large sums of finance and are thus hard to transfer from one entity to another. Each stakeholder's contribution to the corporate team production complements the use of assets that are specific to the corporation (Blair and Stout, 1999). Stakeholders that leave the corporation lose the value of the interplay between their human capital and specific asset use. In this light, specific assets provide a built-in degree of investor protection. To the contrary, less specific assets such as technical knowledge and practical experience are easily transferable when incumbents leave to start their own ventures at a low cost (Himmelberg, Hubbard, and Palia, 1999). Because most investments in research and development are intangible and offer little collateral value, the nature of these investments limits the firm's ability to use debt finance (Brown, Martinsson, and Petersen, 2013). The quality of firm-specific arrangements that protects private property rights can reflect the mix of tangible and intangible assets at least at the industry level (Claessens and Laeven, 2003). In essence, asset specificity complements legal rules and institutions in enhancing the overall quality of investor protection.

Several other firm-specific protective arrangements also contribute to better corporate governance. This firm-specific heterogeneity manifests in the resultant degree of asset protection of minority shareholder rights. Multiple examples of these firm-specific protective arrangements are board size and independence (Core, Holthausen, and Larcker, 1999; Adams, Hermalin, and Weisbach, 2010), CEO-chairman duality (Masulis, Wang, and Xie, 2007; Adams, Hermalin, and Weisbach, 2010), management quality in the form of prior industry-adjusted return on assets (Morck, Shleifer, and Vishny, 1990), executive pay (Bebchuk, Fried, and Walker, 2002; Bebchuk and Fried, 2003, 2004; Edmans, Gabaix, and Landier, 2009), costly debt usage (Lin, Ma, Malatesta, and Xuan, 2011; Rajan, 2012), independent audit assurance (Liao and Radhakrishnan, 2015; Aobdia, Lin, and Petacchi, 2015), financial disclosure and earnings management (Schrand and Zechman, 2012; Hribar and Yang, 2015), product market competition (Shleifer and Vishny, 1997), takeover defense in the form of anti-takeover provisions such as board classification and poison pill (Gompers, Ishii, and Metrick, 2003; Bebchuk, Cohen, and Ferrell, 2009), and institutional ownership (especially in the form of hedge fund activism) (Grinstein and Michaely, 2005; Brav, Jiang, Partnoy, and Thomas, 2008; Chung and Zhang, 2011; Bebchuk, Brav, and Jiang, 2015).

For instance, Masulis, Wang, and Xie (2007) empirically find that M&A announcements made by firms with more anti-takeover provisions yield significantly lower abnormal returns than M&A announcements made by firms with fewer anti-takeover provisions. *Ceteris paribus*, the differential bidder return is about 1% for the typical anti-takeover dictatorship and democracy firms with a mean spread of 10 anti-takeover provisions. The 1% spread is equivalent to a shareholder value loss of about \$30 million. Also, firms that face more intense product market competition experience significantly greater abnormal bidder returns around the M&A announcement date, as do firms that separate the positions of the CEO and chairman of the board. In addition, firms with superior management quality in the form of higher prior industry-adjusted return on assets experience significantly



higher bidder returns around the M&A announcement date. In essence, these firm-specific protective arrangements such as sound board composition with CEO-chairman non-duality, better management quality, less takeover defense, and more intense product market competition promote a better corporate investment outcome in the form of higher abnormal bidder returns.

In addition to above, the design of executive pay contracts creates incentives for executive managers and directors to closely align their business vision with the best interests of shareholders in particular and all stakeholders in general (Bebchuk and Fried, 2004). Both debt covenants and independent audit reports help deter aggressive managerial overinvestments and other free cash flow problems (Jensen, 1986; Stulz, 1990; Lang, Stulz, and Walking, 1991; Harford, 1999; Titman, Wei, and Xie, 2004; Malmendier and Tate, 2005, 2008; Dittmar and Mahrt-Smith, 2007; Harford, Humphery-Jenner, and Powell, 2012; Liao and Radhakrishnan, 2015; Aobdia, Lin, and Petacchi, 2015). To the extent that debt usage better disciplines the senior executive team, less managerial overconfidence correlates with fewer and less likely instances of both financial fraud and earnings management (Schrand and Zechman, 2012; Hribar and Yang, 2015). Corporations with robust corporate governance often attract institutional investors such as pension funds and hedge funds to inject capital into these firms. Some recent evidence suggests that hedge fund activism is particularly effective in driving the target firms to improve their long-term stock return and operating performance (Brav, Jiang, Partnoy, and Thomas, 2008; Bebchuk, Brav, and Jiang, 2015). In this positive light, institutional investors play an important role in corporate governance (Chung and Zhang, 2011). In sum, all of the above mechanisms affect firm-specific intangible asset heterogeneity in the protection of shareholder rights. This asset heterogeneity complements both legal rules and institutions in promoting the overall quality of corporate governance.

The model relates to several studies that shine light on the nexus between corporate structures and firm-specific asset endowments. In particular, specific assets give rise to opportunities for the exploitation of private benefits of control. Incumbents who attempt to confiscate these private benefits of control lock in large blocks of stock. These cumulative attempts propagate information asymmetries, which arise from the fact that incumbents know more about the value of company assets than non-controlling shareholders. As a consequence, these information asymmetries lead the corporation to choose equity ownership and governance structures that provide a suboptimal degree of shareholder protection (Bebchuk, 2002). Some studies suggest that there are substantial differences in stock ownership and governance structures around the world (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998, 1999). While many scholars suggest that the forces of globalization put ineluctable pressures on corporate structures to converge toward the most efficient genre (e.g. Easterbrook and Fischel (1991: 212-213)), others suggest that incumbent rent-protection behaviors can result in the persistence of corporate ownership and governance structures (e.g. Bebchuk and Roe (1999)).

The subsequent model design builds on the above discussion. The level of incumbent stock ownership concentration at any point in time can be expressed as a function of (1) the initial level of insider stock ownership concentration, and (2) the degree of firm-specific asset protection of investor rights, and (3) the degree of legal protection that inhibits shareholder value diversion. Given the relative importance of firm-specific asset or legal protection of

investor rights, the model predicts whether corporate ownership patterns converge over time.

### **Legal protection, asset specificity, and Berle-Means convergence**

The model builds on a schematic Cobb-Douglas production function that converts the normalized units of both legal and firm-specific asset arrangements for investor protection into a single output variable in the normalized units of the overall quality of corporate governance. The Cobb-Douglas production function is a standard concept that helps pave a microeconomic foundation for the current model of corporate ownership concentration. While this representation helps simplify the mathematical derivation, we present a more general form of the model with the constant elasticity of substitution (CES) production function in Appendix 1. Although the mathematical details are different, the qualitative propositions remain the same. The Cobb-Douglas production function follows the unique form below:

$$Q_{ot} = f_{ot}^{\alpha} x_{ot}^{\beta} \tag{Eq(1)}$$

where  $Q_{ot}$  denotes the overall quality of corporate governance,  $f_{ot}$  is the degree of firm-specific asset protection of investor rights,  $x_{ot}$  is the degree of legal protection of investor rights, and  $\alpha$  and  $\beta$  are the factor shares in the Cobb-Douglas production technology with a sum of unity. Taking the natural logarithm of Eq(1) yields a linear representation:

$$Q_t = \alpha f_t + \beta x_t$$

where  $Q_t = \ln Q_{ot} > 0$ ,  $f_t = \ln f_{ot} > 0$ , and  $x_t = \ln x_{ot} > 0$  are the respective logarithmic versions of (1) the quality of corporate governance, (2) the degree of firm-specific protection of investor rights, and (3) the degree of legal protection of investor rights. In Eq(2), the factor shares,  $\alpha$  and  $\beta$ , reflect the relative importance of the firm-specific and legal conditions under which the corporation operates. For instance, the U.S., the U.K., and other Anglo-Saxon countries tend to emphasize a unique set of legal rules and institutions in support of shareholder rights. In these corporate regimes, one observes the inequality  $\alpha < \beta$ . In other words, these regimes assign a larger weight to legal protection than the weight to firm-specific asset protection. In comparison, the financial markets with poor corporate governance and high political risk, such as the BRIC and MINT regimes, largely rely on firm-specific asset protection of investor rights in the absence of robust shareholder-centric legal rules and institutions. In these corporate regimes, one observes the inequality  $\alpha > \beta$ . Specifically, these regimes assign a larger weight to firm-specific asset protection than the weight to legal protection. While this characterization seems arbitrary and many corporate regimes may line up between these extreme tails, the simplification with different values of  $\alpha$  and  $\beta$  facilitates the mathematical derivation. Insofar as there is a fair balance between model parsimony and complexity, this derivation yields useful and testable propositions that serve as a basis for subsequent empirical work.

In this mathematical formulation,  $f_t$  encompasses a linear combination of firm characteristics and  $x_t$  reflects a linear combination of external characteristics in support of investor protection. Firm-specific characteristics include size, book-to-market, Tobin's  $q$ , operating profitability, asset tangibility, dividend payout, share buyback, and so forth. External characteristics include the G- index or E-index for corporate governance, the index for anti-takeover provisions, and many other external legal arrangements in support of investor rights etc. Hence,  $f_t$  and  $x_t$  each include several characteristics in support of either firm-specific or legal arrangements for investor protection.

With equity stakes in the corporation, incumbents benefit from fractional stock ownership  $0 \leq \phi \leq 1$  where  $\phi$  denotes the non-negative level of insider stock ownership. In order to gauge the full quality of corporate governance that arises from this stock ownership, one scales the term  $\phi$  by  $Q_t/f_t$ , or  $(\alpha f_t + \beta x_t)/f_t$ , so that the expression  $\{\phi_t \cdot (\alpha f_t + \beta x_t)/f_t\}$  reflects the quality of corporate governance due to the legal and firm-specific asset arrangements for investor protection with 100% incumbent stock ownership. One can multiply this expression by  $d\phi_t$  to derive the expression  $\{\phi_t \cdot (\alpha f_t + \beta x_t)/f_t\} \cdot d\phi_t$  that captures the full benefits of both legal and firm-specific protective arrangements due to some change in incumbent stock ownership where  $d\phi_t$  denotes a marginal change in incumbent stock ownership concentration.

Because diffuse stock ownership spreads the benefits of both legal and asset arrangements for investor protection to more owners, a corporation's dispersion of stock ownership creates a network externality. This logic suggests that the quality of corporate governance goes hand in hand proportionally with stock ownership concentration at the margin. The marginal change in the quality of corporate governance,  $dQ$ , can be expressed as a constant multiple of the marginal change in the full degree of investor protection that arises from both legal and firm-specific asset arrangements due to partial incumbent stock ownership. In this case  $dQ_t$  and  $d\phi_t$  move in opposite directions due to the spread effect of stock ownership dispersion. This rationale suggests the differential equation below:

$$dQ_t = \left( -\frac{1}{k} \right) \phi_t(x_t) \left( \frac{\alpha f_t + \beta x_t}{f_t} \right) d\phi_t(x_t)$$

where  $k > 0$  is a proportionality scalar, and the negative sign on the right-hand side of Eq(3) keeps intact the logic that diffuse stock ownership permits the full benefits of investor protection to spread to more owners. The level of incumbent stock ownership concentration depends on the degree of legal protection at any given point in time. This characterization does not allow the protective effect of asset specificity to enter the determination of incumbent stock ownership concentration. One plausible explanation is that insider stock ownership concentration serves as a unilateral response to the legal rules and institutions in support of greater investor rights. The intrinsic value of corporate property rights is equal to the value of legal arrangements that enforce these property rights, not the face value of the hard assets. Firm-specific assets only represent corporate value if there are robust laws and institutions that protect the use of these assets. These legal arrangements in turn create incentives for investors to inject capital into corporations for reasonable streams of dividends and capital gains. Hence, the current level of insider stock ownership

concentration at any point in time is a function of legal protection but not firm-specific asset protection.

Rearranging Eq(3) with the substitution of  $dQ_t/d\phi_t = (dQ_t/dx_t) \cdot (dx_t/d\phi_t) = \beta \cdot (dx_t/d\phi_t)$  yields Eq(4):

$$\phi_t(x_t) d\phi_t(x_t) = -k \left( \frac{\beta f_t}{\alpha f_t + \beta x_t} \right) dx_t$$

The next step is to integrate each side of Eq(4) to solve for the prevailing level of incumbent stock ownership concentration at any particular point in time:

$$\phi_t(x_t) = \sqrt{c - 2kf_t \ln(\alpha f_t + \beta x_t)}$$

where  $c$  is an arbitrary constant that arises from the initial condition. When  $\phi(x)$  is non-trivial and positive, Eq(5) holds for logical values of  $k$ ,  $\alpha$ , and  $\beta$  at an interior optimum. We define the initial condition to be  $\phi(x_0) = \phi_0$ . This condition determines the constant  $c = \phi_0^2 + 2kf_t \ln(\alpha f_t + \beta x_0)$  where one can observe the inequalities  $\phi_0 > 0$  and  $x_0 > 0$ . Substituting this result into Eq(5) yields Eq(6):

$$\phi_t(x_t) = \sqrt{\phi_0^2 + 2kf_t \ln \left( \frac{\alpha f_t + \beta x_0}{\alpha f_t + \beta x_t} \right)}$$

For better exposition, we define the Berle-Means convergence determinant as the second term in the square root on the right-hand side of Eq(6). The convergence determinant sets the condition for Berle-Means convergence to occur over time. If this determinant is substantially close to zero, the level of incumbent stock ownership concentration persists at a point in time. In comparison, if the determinant is consistently negative, the level of incumbent stock ownership concentration decreases from the initial condition. In essence, the relative magnitude of quantities that enter the convergence determinant shines fresh light on whether the Berle-Means image of stock ownership dispersion comes to reality.

$$\theta_t(x_t) = 2kf_t \ln \left( \frac{\alpha f_t + \beta x_0}{\alpha f_t + \beta x_t} \right)$$

Eq(6) suggests several key propositions. The first proposition suggests that there is a negative association between equilibrium insider stock ownership concentration and legal protection of investor rights (*ceteris paribus*). This result accords with the empirical law-and-finance thesis that ownership concentration can be a useful substitute for poor investor protection (La Porta, Lopez- de-Silanes, Shleifer, and Vishny, 1999: 473-474, 497). At any rate, Eq(6) suggests that the above negative association is non-linear. Also, Eq(6) does not

suggest the same sort of association between insider stock ownership concentration and asset protection. Alternatively, this analytical solution suggests that there is an ambiguous relationship between stock ownership concentration and firm-specific asset protection. Corporate assets often arise as a natural product of the geographic environment in the era of colonial settlement or extraction, thus it is reasonable to suggest that firm-specific asset arrangements are exogenous due to historical contingencies (Acemoglu, Johnson, and Robinson, 2001; Beck, Demirguc-Kunt, Levine, 2003). On the one hand, highly specific assets attract incumbents to increase their stock ownership in the corporation for better rent protection. On the other hand, this ownership concentration exposes incumbents to the risk of a substantial loss that may arise from the potential business failure or the confiscation of corporate property rights. In sum, the effect of asset protection on stock ownership concentration is not so clear-cut, whereas, the model points to a non-linear negative association between legal protection and stock ownership concentration.

*Proposition 1*

There is a non-linear negative association between incumbent stock ownership concentration and legal protection of investor rights. However, the relation between stock ownership dispersion and firm-specific asset protection is ambiguous.

The second proposition states the path dependence of ownership concentration. A country's pattern of corporate ownership and governance structures at any point in time depends partly on the patterns that this country had at earlier times (Bebchuk and Roe, 1999: 129). This prediction echoes the persistence of stock ownership concentration due to institutional complementarities and large adjustment costs that arise from the existence of multiple optima. In addition to these factors, political forces, managerial rent-protection behaviors, and social norms accentuate the persistence of ownership structures. The parties who intervene in corporate decisions under this structure may have both the incentive and the clout to hinder changes that would otherwise be socially efficient. The persistence of corporate structures can often be a natural subpar outcome due to incumbent interest groups' attempts to retain their private benefits of corporate control.

*Proposition 2*

The initial level of insider stock ownership concentration contributes to the determination of subsequent stock ownership concentration at a given point in time.

Eq(6) suggests the third proposition that the relative importance of legal and firm-specific arrangements for investor protection tilts the balance between the Berle-Means convergent and path-dependent forces. *Ceteris paribus*, if  $\alpha$  approaches unity and  $\beta$  approaches zero (so that the social planner puts an exclusive emphasis on asset protection), the level of incumbent stock ownership concentration persists at the initial condition. In comparison, *ceteris paribus*, if  $\alpha$  approaches zero and  $\beta$  approaches unity such that the social planner places an exclusive emphasis on legal protection, the level of subsequent insider stock ownership is less than the initial level by a full order of magnitude. Eq(8) and Eq(9) encapsulate these asymptotes:

$$\lim_{\beta \rightarrow 0} \phi_t(x_t) = \lim_{\alpha \rightarrow 1} \sqrt{\phi_0^2 + 2kf_t \ln\left(\frac{\alpha f_t}{\alpha f_t}\right)} = \phi_0$$

$$\lim_{\alpha \rightarrow 0} \phi_t(x_t) = \lim_{\beta \rightarrow 1} \sqrt{\phi_0^2 + 2kf_t \ln\left(\frac{\beta x_0}{\beta x_t}\right)} < \phi_0$$

where the former equality holds as the second term within the square root on the right-hand side of Eq(8) vanishes because the social planner assigns an absolute weight to the firm-specific asset arrangements for shareholder protection, and the latter inequality  $\phi_t < \phi_0$  in Eq(9) holds insofar as the corporate regime consistently improves the legal rules and institutions for investor protection,

i.e.  $x_0 < x_t$  or  $\theta_t(f_t, x_t) < 0$ , while this protection attracts an exclusive emphasis from the social planner. In sum, Berle-Means convergence arises from the plausible case where the balance between legal and firm-specific protective arrangements tilts toward consistent decreases in incumbent stock ownership concentration over time.

*Proposition 3*

The relative importance of legal and firm-specific asset arrangements for investor protection affects the balance between the Berle-Means convergent and path-dependent forces. Berle-Means incumbent stock ownership dispersion can arise as a natural result of the social planner’s exclusive emphasis on the legal protective arrangements for investor rights.

**Institutional complementarities**

Our next step is to explore the presence or absence of core institutional complementarities. This exploration is important because complementarities help define the terrain on which corporate structures may or may not converge over time. The main motivation arises from the belief that investors derive the benefits of legal and firm-specific protective arrangements via their equity stakes in the company. On the one hand, investors hold more equity as a response to poor legal or firm-specific asset protection. On the other hand, blocks of stock exclude other investors from enjoying the beneficial protection of these arrangements. In turn, this exclusion suggests weak complementarities between legal institutions and asset endowments. Stock ownership poses an implicit link between legal protection and firm-specific asset protection, albeit this link is theoretically ambiguous.

It would be informative to know whether an increase in the effectiveness of legal protection induces an increase in the effectiveness of asset protection and vice versa. To this end, we derive the first-order derivatives  $d\phi_t/d\alpha$  and  $d\phi_t/d\beta$  and then use these quantities and the unit sum of  $\alpha$  and  $\beta$  to assess whether both legal and firm-specific asset arrangements for investor protection reinforce each other. In microeconomic terms, we seek to derive the

(positive) elasticity of legal protection with respect to firm-specific protection  $(dx_t/x_t)/(d\phi_t/\phi_t)$ . Appendix 2 details the complete proof of this analytical result.

By the chain rule, we work out the first-order derivatives  $d\phi_t/d\alpha$  and  $d\phi_t/d\beta$  when we normalize

$x_0=0$  without any loss of generality:

$$\frac{d\phi}{d\alpha} = \left( \frac{-kf_t^2}{(\alpha f_t + \beta x_t) \cdot \sqrt{\phi_0^2 + 2kf_t \ln\left(\frac{\alpha f_t + \beta x_0}{\alpha f_t + \beta x_t}\right)}} \right)$$

$$\frac{d\phi}{d\beta} = \left( \frac{\left(\frac{k\beta x_t^2}{\alpha}\right)}{(\alpha f_t + \beta x_t) \cdot \sqrt{\phi_0^2 + 2kf_t \ln\left(\frac{\alpha f_t + \beta x_0}{\alpha f_t + \beta x_t}\right)}} \right)$$

The unit sum of the factor shares  $\alpha$  and  $\beta$  suggests the equality  $d\alpha/d\beta = (-1)$ . The next step is to apply this result and Eq(10) and Eq(11) to solve for  $\alpha$  and  $\beta$ :

$$\alpha = \left( \frac{x_t^2}{f_t^2 + x_t^2} \right)$$

$$\beta = \left( \frac{f_t^2}{f_t^2 + x_t^2} \right)$$

We work out the respective first-order derivatives  $dx_t/d\phi_t$  and  $d\phi_t/dft$ :

$$\frac{dx}{d\phi} = \left( \frac{(\alpha f_t + \beta x_t) \cdot \sqrt{\phi_0^2 + 2k f_t \ln\left(\frac{\alpha f_t + \beta x_0}{\alpha f_t + \beta x_t}\right)}}{\beta k f_t} \right)$$

$$\frac{d\phi}{df} = \left( \frac{\alpha k f_t}{(\alpha f_t + \beta x_t) \cdot \sqrt{\phi_0^2 + 2k f_t \ln\left(\frac{\alpha f_t + \beta x_0}{\alpha f_t + \beta x_t}\right)}} \right)$$

The final step is to use Eq(14) and Eq(15) to find the derivative  $\frac{dx}{df} = \left(\frac{dx}{d\phi}\right) \cdot \left(\frac{d\phi}{df}\right)$  when we normalize  $x_0=0$  without any loss of generality. Appendix 2 provides the complete proof of this analytical result.

$$\frac{dx}{df} = \left(\frac{dx}{d\phi}\right) \cdot \left(\frac{d\phi}{df}\right) = \left(\frac{\alpha}{\beta}\right) = \left(\frac{x_t^2}{f_t^2}\right) > 0$$

According to Eq(16), legal and firm-specific protective arrangements are complementary mechanisms. Alternatively, one can derive the positive elasticity of legal protection with respect to asset protection:  $\frac{dx}{df} = \left(\frac{dx}{d\phi}\right) \cdot \left(\frac{d\phi}{df}\right) = \left(\frac{\alpha}{\beta}\right) = \left(\frac{x_t^2}{f_t^2}\right) > 0$ . This analytical result suggests that the effectiveness of legal protection is likely to increase by  $\left(\frac{x_t}{f_t}\right)$  percent in response to a unit percent increase in the effectiveness of asset protection. In turn, both legal protection and asset protection are complementary. This sequential logic supports the case for improving at least one of these protective arrangements to increase shareholder welfare for the corporate society as a whole.

*Proposition 4*

Legal and firm-specific asset arrangements for investor protection constitute complementary institutions. These arrangements complement each other in promoting better investor protection.



**Does Berle-Means convergence represent a structural shift toward the social optimum?**

Berle-Means convergence and path dependence can both be valid theoretical scenarios for the evolution of corporate ownership structure. The next question concerns the social desirability of Berle-Means convergence toward diffuse insider stock ownership. We first explore the condition under which this Berle-Means convergence closes the gap between the status quo and the social optimum. Then we assess whether this convergence toward dispersed incumbent stock ownership is socially desirable.

We rearrange Eq(6) to yield a function of legal protection of investor rights at each point in time:

$$x_t = \left(\frac{\alpha}{\beta}\right) f_t \left\{ \exp\left(\frac{\phi_0^2 - \phi_t^2}{2kf_t}\right) - 1 \right\} + x_0 \exp\left(\frac{\phi_0^2 - \phi_t^2}{2kf_t}\right)$$

Incumbent blockholders acquire some fraction of equity in the corporation  $\phi^*$  in response to the socially optimal degree of legal protection of investor rights  $x^* = \max(x_t; t \in \{1, 2, 3, \dots, T\})$ . In mathematical terms,  $x^*$  can be expressed as a function of  $\phi^*$ :

$$x_* = \left(\frac{\alpha}{\beta}\right) f_* \left\{ \exp\left(\frac{\phi_0^2 - \phi_*^2}{2kf_t}\right) - 1 \right\} + x_0 \exp\left(\frac{\phi_0^2 - \phi_*^2}{2kf_t}\right)$$

At this stage, we derive the respective expressions of the quality of corporate governance at any given point in time  $Q_t$  as well as the socially desirable quality of corporate governance  $Q_t^*$ :

$$Q_t = \alpha f_t + \beta x_t = (\alpha f_t + \beta x_0) \cdot \exp\left(\frac{\phi_0^2 - \phi_t^2}{2kf_t}\right)$$

$$Q_t^* = \alpha f_* + \beta x_* = \alpha(f_* - f_t) + (\alpha f_t + \beta x_0) \cdot \exp\left(\frac{\phi_0^2 - \phi_*^2}{2kf_t}\right)$$

where  $f^*$  denotes the socially optimal degree of asset protection of investor rights. For better and easier exposition, we define  $\xi_t$  as the distance between the socially desirable quality of corporate governance and the privately efficient counterpart at any point in time:

$$\begin{aligned} \xi_t = Q_t^* - Q_t &= \alpha(f_* - f_t) \\ &+ \alpha f_t \left\{ \exp\left(\frac{\phi_0^2 - \phi_*^2}{2kf_t}\right) - \exp\left(\frac{\phi_0^2 - \phi_t^2}{2kf_t}\right) \right\} \\ &+ \beta x_0 \left\{ \exp\left(\frac{\phi_0^2 - \phi_*^2}{2kf_t}\right) - \exp\left(\frac{\phi_0^2 - \phi_t^2}{2kf_t}\right) \right\} \end{aligned}$$

The optimal outcome arises from the case where  $\xi_t$  hits its zero lower bound. The optimization problem is to differentiate  $\xi_t$  with respect to  $\phi_t$ . Equating the first-order condition to nil yields a testable proposition:

$$\frac{d\xi_t}{d\phi_t} = \left( \frac{\alpha f_t + \beta x_0}{k f_t} \right) \cdot \exp\left( \frac{\phi_0^2 - \phi_t^2}{2k f_t} \right) \cdot \phi_t = 0$$

The above first-order condition is equal to zero when the strict equality  $\phi_t = \phi_t^* = 0$  holds at the lower bound for the current level of incumbent equity ownership concentration at a given point in time. This analytical solution suggests that Berle-Means convergence toward diffuse incumbent stock ownership draws the corporate outcome closer to the social optimum. In turn, this convergence occurs at the zero lower bound and closes the gap between the initial condition and the socially desirable quality of corporate governance. In order to affirm that this gap reaches its minimum, one evaluates the second derivative  $d^2\xi_t/d\phi_t^2$  at  $\phi_t = 0$ . This second derivative is strictly positive at  $\phi_t = 0$ , thereby the deviation from the social optimum vanishes when insiders hold little stock ownership in the corporation. Berle- Means convergence toward dispersed stock ownership precludes corporate insiders from steering business decisions at the expense of minority shareholders.

$$\frac{d^2\xi_t}{d\phi_t^2} = \left( \frac{\alpha f_t + \beta x_0}{k f_t} \right) \cdot \exp\left( \frac{\phi_0^2 - \phi_t^2}{2k f_t} \right) \cdot \left( 1 - \frac{\phi_t^2}{k f_t} \right) = \left( \frac{\alpha f_t + \beta x_0}{k f_t} \right) \cdot \exp\left( \frac{\phi_0^2}{2k f_t} \right) > 0$$

*Proposition 5*

Berle-Means convergence toward dispersed insider equity ownership represents a structural shift toward the socially desirable quality of corporate governance.

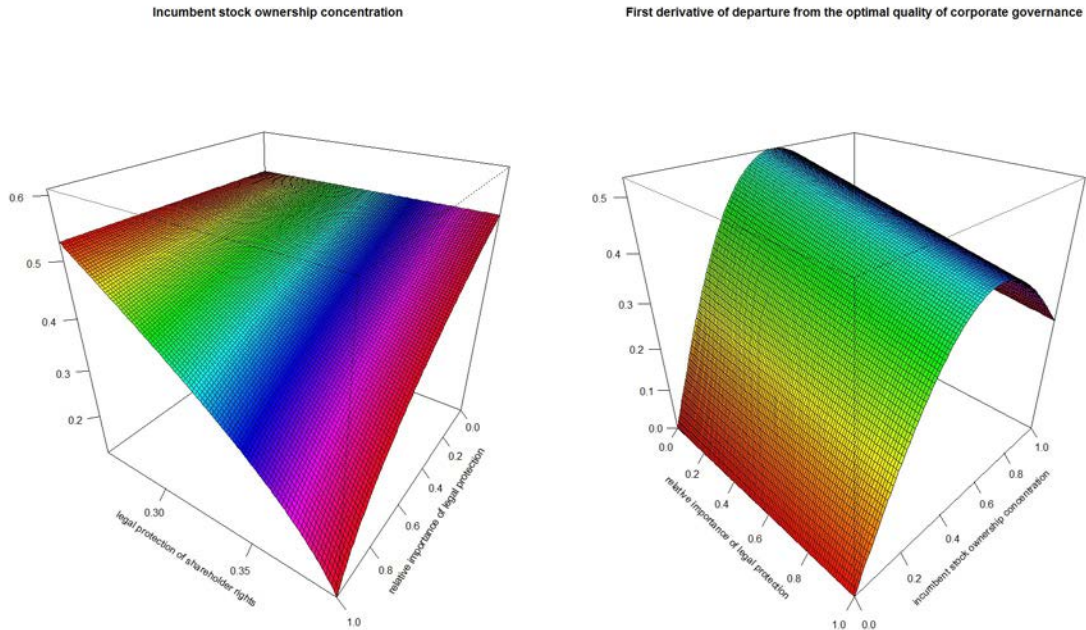
In order to better appreciate the analytical results in Eq(6) and Eq(22), we use hypothetical values of the quantities  $\{f_0, f_t, x_0, x_t, \phi_0, \phi_t, k\} = \{0.23, 0.33, 0.26, 0.39, 0.53, 0.04, 1.00\}$  to plot the stereoscopic visualization of (1) the current level of insider stock ownership concentration, and (2) the first derivative of deviation from the optimal quality of corporate governance in Figure 1. In Figure 2, we plot the first derivative of deviation from the optimal level of corporate governance by assuming equal factor shares  $\alpha = \beta = 0.5$  with different parameter values of proportionality factor and initial legal protection of investor right. In effect, this visualization better delineates the curvature of the relationship between the core variable under study and the legal protection of investor rights and the relative importance of this protection. This stereoscopic presentation integrates the testable conjectures that we summarize in Propositions 1 to 5 above.

**Inside blockholder rent protection and minority shareholder expropriation**

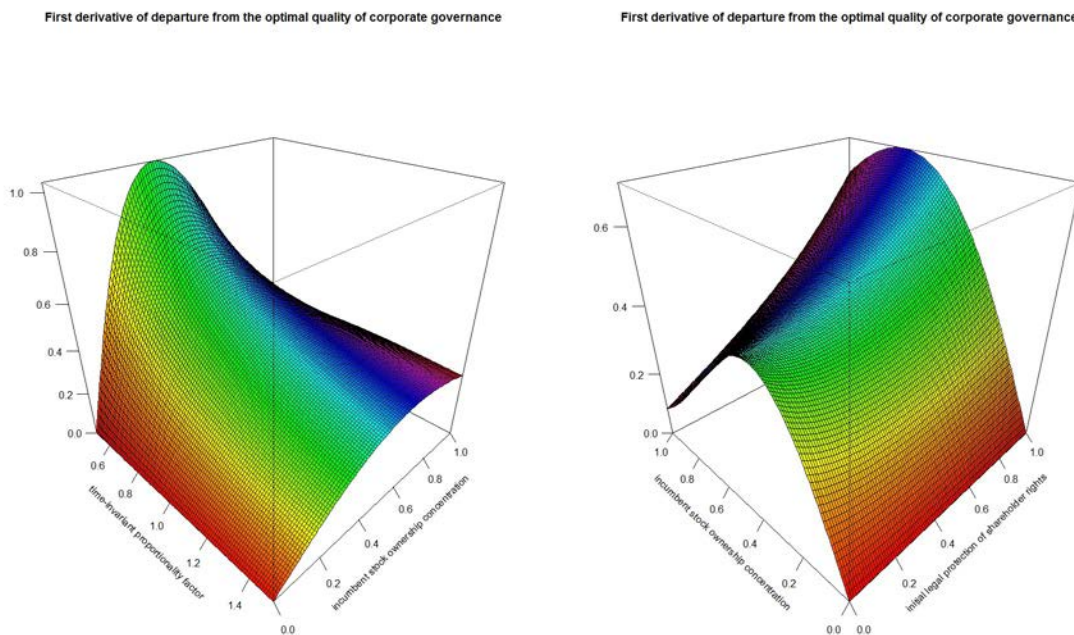
This section analyzes changes in the utility levels for both inside blockholders and minority shareholders. This analysis investigates the nexus between inside blockholder rent protection and minority shareholder expropriation. For the purposes of the current paper, we attempt to derive a testable proposition that reflects the equilibrium interplay between inside blockholders and minority shareholders. This intuitive analysis suggests that the former can use their large blocks of stock and thus corporate control rights to extract a

positive rent while the latter get fully expropriated with zero utility. As a consequence, the overall quality of corporate governance deviates from the social optimum. This economic rationale in turn suggests that corporate ownership and governance structures may depart substantially from the Berle-Means image of the modern corporation.

**Figure 1: Stereoscopic visualization of the analytical results in Eq(6) and Eq(22)**



**Figure 2: Stereoscopic visualization of the analytical solution in Eq(22) with equal factor shares and different parameter permutations**



Our analysis rests on the fundamental concept that corporate insiders often steer key business decisions to the detriment of outside investors. The corporate governance literature is replete with examples of deliberate use of managerial power that leads to a deterioration in firm value. For instance, incumbents engage in earnings management prior to major corporate events such as initial public offerings (Teoh, Welch, and Wong, 1998a), seasoned equity offerings (Teoh, Welch, and Wong, 1998b), stock-for-stock mergers (Erickson and Wang, 1999; Louis, 2004), and open-market repurchases (Gong, Louis, and Sun, 2008). Also, corporate managers opportunistically time the stock market through equity issuance when the firm's market value is high relative to its book value or past market values (e.g. Jung, Kim, and Stulz, 1996; Pagano, Panetta, and Zingales, 1998; Baker and Wurgler, 2002; Huang and Ritter, 2009). In addition, abnormal stock returns arise as a result of corporate events that are associated with asset expansion or contraction (e.g. Loughran and Ritter (1995), Ikenberry, Lakonishok, and Vermaelen (1995), Loughran and Vijh (1997), Titman, Wei, and Xie (2004), Anderson and Garcia-Feijoo (2006), Fama and French (2006), and Cooper, Gulen, and Schill (2008)). Incumbent blocks of stock further facilitate this managerial rent-protection mechanism that drives core business decisions to benefit inside blockholders (e.g. Bebchuk, 1999; Bebchuk and Roe; 1999; Dyck and Zingales, 2004). In this context, the desire for retaining private benefits of control may induce incumbents to introduce corporate arrangements such as poison pills and board classifications to insulate directors and executives from the influence of outside blockholders (Shleifer and Vishny, 1986; Bebchuk, Coates, and Subramanian, 2002; Bebchuk and Cohen, 2005; Bebchuk and Kamar, 2010; Bebchuk and Jackson, 2012; Bebchuk, 2013; Bebchuk, Brav, and Jiang, 2015). In sum, both managerial power and

entrenchment are essential ingredients in our analysis of the game-theoretic equilibrium interplay between inside blockholders and minority shareholders. This interplay sheds light on whether Berle-Means convergence is sustainable near the social optimum.

For better exposition, we assume all minority shareholders to be outside shareholders who hold small equity stakes in the corporation. These outside investors are not able to cause any material changes in corporate decisions. In effect, these small minority shareholders differ from “controlling shareholders” who hold large equity stakes in the corporation such that the latter shareholders have the clout to directly influence managerial decisions in the corporate context. In this sense, we consider controlling shareholders part of the incumbent group since they tilt, share, and exercise power in the corporate game. The primary objective of this model setup is to derive a simple and intuitive analytical result that shines light on the comparison of utility changes for inside blockholders and minority shareholders in the corporate context.

We first consider a single period in which incumbents or inside blockholders derive utility from their efforts as well as private benefits of control. When incumbents choose self-employment, their base income  $c_0$  is presumably lower than their executive compensation  $c_e = c_0 + r$  that includes both their base income  $c_0$  and economic rent  $r$ . The former is the competitive equilibrium pay for incumbents, and the latter represents private benefits of control that incumbents extract by exercising their large blocks of stock to steer major corporate decisions in favor of inside blockholders. Over the period incumbents derive utility from the wedge between their executive pay  $c_e$  and opportunity cost  $e$ , plus the present value of the same pay as the terminal utility:

$$u_e = c_e - e + \delta u_e \Rightarrow u_e = \left( \frac{c_e - e}{1 - \delta} \right)$$

where  $\delta$  is the discount factor and  $u_e$  is the amount of utility that incumbents can derive from their diligent involvement in corporate affairs as well as their private information about the firm’s near-term investment, payout, and financing activities. The latter private information is unknown to minority shareholders. When private benefits of control are large, these information asymmetries create perverse incentives for incumbents to extract a material economic rent from their large blocks of stock. Then we derive the central condition under which large private benefits of control induce incumbents to engage in corporate affairs that lead to this value diversion.

When incumbents unilaterally deviate from the above diligent involvement in corporate decisions, their terminal utility becomes  $u_d$  with probability  $p$  and  $c_0/(1-\delta)$  with probability  $(1-p)$  where  $u_d$  represents the amount of utility that incumbents derive from this unilateral deviation:

$$u_d = c_e + \delta \left\{ p u_d + (1-p) \left( \frac{c_0}{1-\delta} \right) \right\} \Rightarrow u_d = \left\{ \frac{(1-\delta)c_e + \delta(1-p)c_0}{(1-\delta p)(1-\delta)} \right\}$$

A comparison of Eq(24) and Eq(25) results in the condition, i.e.  $u_e > u_d$ , under which there is no unilateral profitable opportunity for incumbents to deviate from their diligent involvement in corporate decisions:

$$\left(\frac{c_e - e}{1 - \delta}\right) > \left\{ \frac{(1 - \delta)c_e + \delta(1 - p)c_o}{(1 - \delta p)(1 - \delta)} \right\}$$

$$c_e > c_o + \left(\frac{1 - \delta p}{\delta(1 - p)}\right)e \Rightarrow r > \left(\frac{1 - \delta p}{\delta(1 - p)}\right)e$$

This condition suggests that incumbents face perverse incentives in the form of large private benefits of control to steer major corporate decisions for shareholder value diversion. To the extent that a significant economic rent accrues to the use of large blocks of stock held by incumbents to influence major corporate decisions, the total amount of incumbent compensation exceeds self-employment pay plus a probabilistic time value of executive effort by a full order of magnitude.

The next logical step is to consider the disequilibrium scenario where incumbents deviate from the above strategy for one period and then switch back to this strategy thereafter. The resultant utility level becomes  $v_d$ , and the condition for this deviation to be unprofitable is  $ue > v_d$ :

$$v_d = c_e + \delta \left\{ p \left(\frac{c_e - e}{1 - \delta}\right) + (1 - p) \left(\frac{c_o}{1 - \delta}\right) \right\}$$

$$\left(\frac{c_e - e}{1 - \delta}\right) > c_e + \delta \left\{ p \left(\frac{c_e - e}{1 - \delta}\right) + (1 - p) \left(\frac{c_o}{1 - \delta}\right) \right\}$$

$$c_e > c_o + \left(\frac{1 - \delta p}{\delta(1 - p)}\right)e \Rightarrow r > \left(\frac{1 - \delta p}{\delta(1 - p)}\right)e$$

The derivation of Eq(28)-Eq(30) affirms the theoretical validity of the condition under which incumbents should not deviate from their diligent engagement in business decisions in each period. Any unilateral deviation from the above equilibrium strategy cannot be profitable for incumbents. When incumbents face large private benefits of control, these corporate insiders have perverse incentives to use their clout to influence business decisions for value diversion. Incumbents would retain a lock on corporate control to entrench themselves for rent protection in future periods.

We define the  $k$ th investor's utility function as  $(\phi_k Q_k - c_k)$  where  $\phi_k$  represents the investor's stock ownership in the corporation (i.e.  $\phi_B > \phi_M$ ),  $Q_k$  is the quality of corporate governance from the investor's perspective, and  $c_k$  denotes the investor's opportunity cost of executive effort. Incumbents possess private information about the firm's investment, payout, and financing activities, thus these information asymmetries permit incumbents to receive better investor protection than small minority shareholders who have no clout to influence major business decisions. In this case, one observes the inequality  $Q_M < Q_B$  where  $Q_M$  represents the level of investor protection for small minority shareholders while  $Q_B$  represents the level of investor protection for insider blockholders. Further, inside blockholders and minority shareholders face different opportunity costs of executive effort.

The former devote much time and energy to key corporate decisions while the latter have quite minimal corporate engagement. In this light, one observes the inequality  $c_M < c_B$ . A convenient assumption expresses the disutility that arises from executive effort  $e(Q_k)$  as a function of the overall quality of corporate governance. For technical convenience, one assumes this function to be twice-differentiable and convex with the first derivatives  $e'(0)=0$  and  $e'(\infty)=\infty$ . Each investor derives a utility gain from his or her interplay with the other investors in the corporate context. This utility gain is thus  $c_M - e(Q_M)$  for small minority shareholders or  $c_B - e(Q_B)$  for inside blockholders. With the above model setup, the corporate planner's main objective is to maximize the sum of gains for all investors:

$$\max_{Q_M, Q_B, c_M, c_B} \left( \frac{M}{M+B} \right) (c_M - e(Q_M)) + \left( \frac{B}{M+B} \right) (c_B - e(Q_B))$$

$$\phi_M Q_M - c_M \geq \phi_M Q_B - c_B$$

$$\phi_B Q_B - c_B \geq \phi_B Q_M - c_M$$

$$\phi_M Q_M - c_M \geq 0$$

$$\phi_B Q_B - c_B \geq 0$$

where  $M$  is the number of small minority shareholders and  $B$  is the number of inside blockholders. This optimization entails key constraints around incentive compatibility and investor rationality. Both Eq(32) and Eq(33) are incentive compatibility constraints. The former states that minority shareholders prefer to hold small equity stakes with lower investor protection. In this way, small minority shareholders voluntarily give up corporate control in exchange for portfolio liquidity to reap better risk-return trade-offs; otherwise, these investors would hold large equity stakes in the firm to entrench themselves as either controlling shareholders or inside blockholders. The latter incentive compatibility constraint requires that inside blockholders prefer the higher quality of corporate governance. This better investor protection in effect entrenches and insulates incumbents from the direct influence of other shareholders such as outside blockholders. Also, this latter constraint suggests that inside blockholders can choose to sell their large blocks of stock at a reasonable premium as compensation for this voluntary equity dilution. In essence, investors would self-select to reveal their preferences when these investors have to choose from a menu of stock ownership and governance structures that satisfy these incentive compatibility constraints. Eq(34) and Eq(35) are investor rationality constraints. The former states that small minority shareholders prefer small equity stakes with lower investor protection to zero participation in the corporate game. The latter suggests that inside blockholders prefer large equity stakes with better investor protection to zero participation in the corporate game. With the above constraints Eq(32)- Eq(35), one can transform the optimization problem to characterize the equilibrium interplay between inside blockholders and small minority shareholders. Appendix 3 provides the complete

proof of this mathematical transformation.

This mathematical transformation results in a set of equivalent constraints and Kuhn-Tucker first-order conditions:

$$c_M = \phi_M Q_M$$

$$c_B = \phi_B Q_B - (\phi_B - \phi_M) Q_M$$

$$\max_{Q_M, Q_B} \left( \phi_M Q_M - e(Q_M) - \left( \frac{B}{M} \right) (\phi_B - \phi_M) Q_M \right) + \left( \left( \frac{B}{M} \right) (\phi_B Q_B - e(Q_B)) \right)$$

$$e'(Q_M) = \phi_M - \left( \frac{B}{M} \right) (\phi_B - \phi_M) < e'(Q_M^*) = \phi_M$$

$$e'(Q_B) = \phi_B$$

The above derivation suggests several key insights. Eq(39) indicates that the opportunity cost of executive effort for small minority shareholders is lower than the opportunity cost of executive effort at the socially efficient ownership level:  $e'(Q_M) < e'(Q^*) = \phi$ . As a result of Eq(36) and Eq(39), minority shareholders receive zero utility  $u_M = \phi M Q_M - c_M = 0$ . This complete expropriation arises from the existence of information asymmetries that favor inside blockholders at the detriment of small minority shareholders. Nevertheless, these minority shareholders are not necessarily worse off because they may be able to reap better diversification benefits with respect to their extant stock investment portfolios.

Further, Eq(40) indicates that the opportunity cost of executive effort for inside blockholders is equal to the opportunity cost of executive effort at the socially efficient ownership level:  $e'(Q_B) = e'(Q_B^*) = \phi_B$ . As a result of Eq(37) and Eq(40), inside blockholders can extract a positive rent from their equilibrium interplay with small minority shareholders  $u_B = \phi_B Q_B - c_B = (\phi_B - \phi_M) Q_M > 0$ . This positive rent arises from the presence of information asymmetries that allow incumbents to exercise their large blocks of stock to steer major corporate decision at the expense of minority shareholders. In the equilibrium interplay between minority shareholders and inside blockholders, the former are indifferent while the latter are better off in light of both substantive information asymmetries and stock ownership spreads for these investor groups.

*Proposition 6*

The equilibrium interplay between inside blockholders and small minority shareholders suggests that the former extract a positive rent from their large blocks of stock in the corporation while the latter get fully expropriated with zero utility. The resultant quality of corporate governance thus deviates from the social optimum. In equilibrium, the corporate ownership and governance structures may depart from the Berle-Means image of the modern corporation.

The above equilibrium interplay between inside blockholders and small minority shareholders suggests corporate rent protection in favor of incumbents who hold large blocks of stock in the firm. This interplay tends to cause a deviation from the social optimum that can arise from Berle- Means convergence toward diffuse incumbent stock



ownership. In fact, higher incumbent stock ownership concentration exacerbates this deviation when inside blockholders hold excess control rights in comparison to their cash flow rights. For instance, the cost of debt is significantly higher for firms with a wider divergence between the largest ultimate owner's control rights and cash flow rights due to potential tunneling and self-dealing behaviors or other moral hazard activities by inside blockholders (Lin, Ma, Malatesta, and Xuan, 2011). Also, the shadow price of external finance is significantly higher for firms that experience a wider insider control-ownership divergence, so corporations whose incumbents have larger excess control rights face more severe financial constraints (Lin et al, 2011). These negative outcomes arise from high insider stock ownership concentration and thus call for attention from corporate governance policymakers.

## **Conclusion**

In the current study, we design and develop a model of corporate ownership and control to better assess the theoretical plausibility of Berle-Means convergence toward diffuse incumbent stock ownership. To the best of our knowledge, this mathematical analysis is the first study of the key conditions for Berle-Means convergence, its social desirability, and the equilibrium interplay between inside blockholders and minority shareholders.

We generalize Yeh, Lim, and Vos's (2007) baseline model of Berle-Means convergence with the constant elasticity of substitution (CES) production function in comparison to the Cobb- Douglas special case. While the first proposition remains the same in this more general CES production function, several new analytical results include institutional complementarities, socially optimal insider ownership stakes, and persistent deviations from Berle-Means corporate ownership dispersion in equilibrium. This latter result is an equilibrium sub-optimal outcome in the corporate game with information asymmetries between inside blockholders and minority shareholders. These novel propositions serve as the theoretical basis for subsequent empirical analysis. The appendices provide the complete mathematical derivation.

The analytical results suggest that Berle-Means convergence occurs when the legal rules and institutions for investor protection outweigh in relative importance the firm-specific asset protection of shareholder rights. While both the legal and firm-specific arrangements constitute complementary sources of investor protection, Berle-Means convergence toward dispersed incumbent equity ownership draws the corporate outcome closer toward the social optimum. High insider stock ownership creates perverse incentives for inside blockholders to influence corporate decisions in a way that is detrimental to minority shareholders. These analytical results serve as testable propositions for empirical research. This study offers a mathematical model of the dynamic evolution of corporate ownership and governance structures over time. This model is general enough to encapsulate both arguments for and against Berle-Means convergence as special cases. In the context of equilibrium interplay between inside blockholders and minority shareholders, the model predicts that the former obtain a positive rent from their large blocks of stock by steering major corporate decisions while the latter maintain a neutral utility threshold. Insofar as incumbents seek and secure economic rent in the corporate game, this equilibrium interplay persists as a deviation from the social optimum. Berle-Means convergence toward diffuse incumbent stock ownership may or may not materialize due to the unilateral tilt of both

legal and firm-specific asset arrangements for investor protection.

These analytical results contradict Leland and Pyle's (1977) central thesis that incumbent stock ownership sends a positive signal of firm-specific investment project quality as a natural response to information asymmetries between corporate insiders and minority shareholders. To the extent that both firm value and incumbent ownership vary together endogenously, this simultaneity leads to an ambiguous empirical nexus after one adequately controls for a unique array of exogenous productivity parameters (Coles, Lemmon, and Meschke, 2012). This ambiguous nexus between firm value and incumbent stock ownership reflects the balance between incentive alignment and incumbent entrenchment. At any rate, our study models the evolution of corporate governance and ownership patterns over time. Whether Berle-Means convergence can close a wedge between the status quo and the social optimum for better stakeholder value maximization remains an empirical puzzle. Our analysis has major implications for public policy and future empirical research in search of best practices in corporate governance.

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## CLIENT SATISFACTION WITH NURSING- HOMES SERVICES IN ISRAEL

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**Abstract:** *This article seeks to examine elderlies' satisfaction from their nursing home (NH) based on the type of the NH (governmental, non-profit, or private) and the funding (private or public). Our data confirm that in public NH elderlies feel less satisfied with their care than private NH, perhaps because the former are more functionally impaired and have a greater need for nursing. Another explanation for higher satisfaction with private nursing homes is that elderly people prefer to receive personal attention, a thing that is less prevalent in public NHs, where the ratio of elderlies to one staff is higher than in non-profit and private NHs. Based on sufficient research evidence about public NH services, policymakers need to devise culturally feasible plans to overcome diverse barriers to nursing care and to provide qualified services that meet the needs of elderlies, who prefer public NHs. The data regarding the non-profit NH are found in between the other two. These non-profit NH lead to higher satisfaction than the governmental, but less satisfaction than the private NHs.*

**Keywords:** *Crisis Management, Covid-19, Nursing Homes for Elderly, Israel.*

### Introduction

The nursing care industry has been growing rapidly in OECD countries in general and in Israel in particular in the last few decades, and that is due to the rise in the life expectancy at birth. There is also a high probability that this trend will continue in the coming future (Comondore et al., 2009). The significant increase in healthcare costs has widened the budget deficits in the public sector and led to increased cost and efficiency pressure on hospitals and nursing homes (NHs) in recent years (Zambon et al., 2006; Reibling et al., 2019). Because of the increasing proportion of elderly people in OECD societies and the associated rise in health care and social welfare costs, nursing homes are under even greater pressure to both: improve client satisfaction and seek efficiency (Harrington et al., 2012). This study is solely concerned with an efficiency analysis of Israeli nursing homes and the satisfaction of the elderly from the services they receive. Against this background, the article focuses in particular on the following questions:

How does the type of nursing home, private, non-profit or governmental, affect the satisfaction of seniors in Israel?

Are the Israeli nursing homes characterized by a high level of efficiency and satisfaction, and if yes, which type of nursing homes: private, non-profit or governmental leads to better satisfaction of seniors?

Is the type of nursing home that is more efficient necessarily leads to higher satisfaction of patients?

Which factors that affect satisfaction of seniors in Israeli nursing homes need to be changed?

Does the type of ownership of a nursing home (private / public) and the corporate objective (for-profit / non-profit) of a nursing home play a role in affecting satisfaction (Harrington et al., 2015)?

Hence, the article seeks to explain whether the type of NH plays a role in improving elderlies satisfaction of a NH? With regard to the last point, it can be said that in Israel the long-term care of elderly people is provided by private nursing homes as well as by public and private non-profit nursing homes (Ministry- of-Health-Israel, 2020).

### **Nursing-homes and Elderlies Satisfaction in Israel:**

The number of beds per a nursing home or nursing wards in hospitals in 2014 in the OECD countries averaged around 1,030 beds per 1,000 people aged 80 and over, while Israel was below the average with about 780 beds per 1,000 these people (Kovch et al., 2017). The relatively low ratio of beds per elderlies in Israel corresponds to the relatively low rate of those entitled to assistance in nursing care (about 13% of elderlies in nursing homes), and it reflects a picture according to which many nursing seniors are treated in their homes, especially in the Arab sector (Kovch et al., 2017). OECD countries have on average recorded a slight increase in the number of nursing beds in the last decade and a half, but there is also a difference in this trend (Hillel et al., 2020). At the end of 2019, there were in Israel 25,483 beds in total, most of them 21,348, for long-term geriatrics, nursing geriatrics and the mentally debilitated, and 4,135 for active geriatrics, rehabilitation, complex nursing, supportive care, acute geriatrics, prolonged respiration and tuberculosis. The rate of beds has been declining since the mid- 2000s (Hillel et al., 2020).

In Israel, there are about 73,000 elderly people living in institutions, of which about 22,000 are in inpatient institutions for nursing and the mentally debilitated (long-term geriatrics) and about 4,300 are in active geriatric wards, under the responsibility of the Ministry of Health. In addition there are 5,500 elderly people staying in nursing homes for the debilitated and 16,000 in sheltered housing under the responsibility of the Ministry of Welfare; and the rest - about 26,500 – are in nursing houses of the Ministry of Housing and the Ministry of Absorption (Cohen- Mansfield, 2020; The-Association-of-Elderlies'-Families-in-Nursing-Houses, 2020). These people are scattered in 113 nursing homes that already signed a contract with the Ministry of Welfare, based on which they can receive welfare subsidies for their tenants.

It can be difficult to make a general comparison between private, non-profit, and public NHs based on customer satisfaction, given that such satisfaction can vary depending on several factors such as location of the NH, facilities provided, staff quality, and care provided. However, in general, customer satisfaction surveys can provide a useful benchmark for comparing the quality of care and services offered by different types of NHs.

It is important to note that non-profit nursing homes are usually mission-driven and may prioritize providing quality care over maximizing profits, which may result in higher customer satisfaction (Lusky et al., 2005). On the other hand, private nursing homes may have more resources and offer more luxurious facilities, leading to higher customer satisfaction. Public nursing homes, however which are funded by tax revenues, may have lower budgets and fewer resources, potentially leading to lower customer satisfaction.



Ultimately, the best way to determine the quality of care and services offered by an NH is to research and visit the facility in person, talk to residents and their families, and review relevant information such as inspection reports and survey results.

Comparing private, non-profit, and public nursing homes based on customer satisfaction can be done through surveys, questionnaires, or focus groups where residents and their families are asked to rate their experiences with the facilities (Clarfield et al., 2009). This study is based on collecting data through questionnaires that were filled out by elderlies and interviews with managers of NHs in Israel. The data collected from these methods was then analyzed to determine the level of satisfaction with each type of NH. It is important to note that the comparison of customer satisfaction between these three types of nursing homes should be done with caution, as factors such as location, staff training, and resident demographics can greatly influence the results. A more comprehensive and in-depth study would be necessary to accurately compare and determine the level of customer satisfaction between these types of nursing homes.

### Test Default

Nursing homes provide long-term residential nursing care for elderlies. The findings below are based on a sample that included 576 participants in Israel from three types of nursing homes (NHs): Governmental, Non-profit and Private, where the proportionate allocation is: 26 participants from Government nursing houses, 170 participants from Non-Profit Organizations, and 380 participants from Private ones. These results and the statistics on the dependent variables are presented from the perspectives of the residents of the participating NHs. The satisfaction was measured based on the categories mentioned in Table 1 that include elements such as Tangibility, Responsiveness, Reliability, Empathy, cleanliness, Private room, Dining room etc.

### Findings

Table 1 shows the ranking of the mean of those who had code from the Ministry of Health and those who went private. Among those who had did not have code from the Ministry of Health (private), the lowest and highest mean score were for Professional Treatment and Cleanliness, respectively (4.51 and 4.78), while among those who did have code, the lowest and highest mean score were for Private Room and external Structure, respectively (3.25 and 4.12) (It should be noted that the mean score for the Covid-19 among these who had code was 3.15).

**Table 1: Mean of Satisfaction, private vs. Ministry of Health Code**

Mean of Satisfaction: 1 Strongly Dissatisfied, 5=Strongly Satisfied		
	Private	Ministry of Health Code
NH Infrastructure	4.68	4.12
Professional Treatment	4.51	3.83
Tangibility	4.63	3.69
Responsiveness	4.59	3.51
Assurance and Security	4.66	3.59

Reliability	4.57	3.38
Empathy and Autonomy	4.48	3.39
Cleanliness and Hygiene	4.78	3.41
Private Room	4.58	3.25
Dining Room	4.49	3.53
Community and Religion	4.56	3.69
Covid-19 Satisfaction	3.92	3.15

Users of long-term NH services evaluated their care positively. Table 2 ranks the mean value of each of the three types of NH. In the private NH group, the highest mean score was for Cleanliness and Hygiene domain (4.78). In the non-profit NH group, the highest mean score was for Exterior and Architecture (4.19). In the Government NH group, the highest mean was for Exterior and Architecture too (3.65). However, those elderly resident of government NH were least satisfied with daily activities provided in the nursing home and with their treatment during the Covid-19 crisis and their Private Room (2.89 and 3.92, respectively). In non-profit NH, the lowest mean score was for Covid-19 and Responsiveness (3.19 and 3.46, respectively). In the private sector, however, the lowest mean score was for Covid- 19 and Empathy (3.92 and 4.48, respectively).

**Table 2**

Category	Type of NH		
	Government	Non-profit	Private
NH Infrastructure	3.65	4.19	4.68
Professional Treatment	3.61	3.86	4.51
Tangibility	3.26	3.76	4.63
Responsiveness	3.02	3.46	4.59
Assurance and Security	3.33	3.63	4.66
Reliability	3.12	3.42	4.57
Empathy and Autonomy	3.17	3.43	4.48
Cleanliness and Hygiene	3.15	3.45	4.78
Private Room	2.92	3.30	4.58
Dining Room	3.14	3.59	4.49
Community and Religion	3.32	3.75	4.56
Covid-19 Satisfaction	2.89	3.19	3.92

This study examined several factors related to overall satisfaction in nursing home care. In the multiple correlation analysis, the models including age, sex, duration in months at the NH, exterior structure and architecture were used. From our calculations, we only noticed that only the variables of the Ministry of Health Code, and the Type of NH significantly predicted overall satisfaction in nursing home care.

Our findings showed that senior citizens receiving public funding (code from the Ministry of Health) in nursing home had lowest care satisfaction. These results were consistent with previous studies (Comondore et al., 2009). Earlier studies conducted in Israel also showed similar results to ours (Clarfield et al., 2009). This low satisfaction could be attributed to the fact that private NHs seek to outperform public and non-profit NHs in the services they provide to their elderly residents. Although users reported that they currently felt satisfied

with the care provided, it is important to show which factors should improve or retained in order to provide high-quality care. Our data confirm prior findings that public NH care elderlies feel less satisfied with their care than private NH (Jester et al., 2019), perhaps because the former are more functionally impaired and have a greater need for nursing. Another explanation for higher satisfaction with private nursing homes is that elderly people prefer to receive personal attention, a thing that is less prevalent in public NHs, where the ratio of elderlies to one staff is higher than in non-profit and private NHs (Dov Chernihovsky et al., 2017). Based on sufficient research evidence about public NH services, policymakers need to devise culturally feasible plans to overcome diverse barriers to nursing care and to provide qualified services that meet the needs of elderlies, who prefer public NHs. In this study, the quality of caregivers who provided care services in person was an important factor that augmented care satisfaction. These results are supported by prior studies that caregivers' abilities and sympathy had an important role in care satisfaction (Ministry-of-Health-Israel, 2019).

Medical or nursing services need to be increased because low-income senior citizens have high care needs due to their medical problems and most of them cannot pay for private medical or nursing home service (Kojima, 2018). It is particularly difficult to monitor their health status because many of them are unable to visit hospitals due to mobility problems or because of a lack of family members who can care for them. Yet, private NHs are highly expensive. To establish the use of NH for better care services, the costs should be balanced with those of other services. In this study, NH elderlies in private and non-profit NHs were ordinarily satisfied with their living conditions, whereas they were relatively less satisfied with knowledge about what services were promised in the NH on admission. In addition, their scores concerning autonomy regarding care decisions and daily activities were smaller than those of the other indicators. In our regression analysis, quality of care facilities, including service information and contact availability, exerted important effects on care satisfaction among these elderlies.

Moreover, NHs should provide adequate information about what elderlies would go through to assist them in their decisions. In addition, elderlies reported lower satisfaction with the activities available in their public nursing homes, compared to the other two types of NHs in our study. Group activities reduce feelings of loneliness and increase feelings of wellbeing among the elderlies, thus influencing their emotional health. Therefore, diverse programs promote physical and emotional health and such activities and programs were more available in private and non-profit NHs.

Although variables such as age, sex, and duration at an NH could be related to satisfaction, existing evidence on these relationships is insignificant (Kajonius et al., 2016). There was no significant association between personal data and overall care satisfaction in our regression models.

It is important to recognize the limitations of this study. Our study can be considered a preliminary step to continuously monitor NHs quality and customer satisfaction with NH services in Israel. To achieve these goals, new studies are necessary to implement more effective ways to preserve qualified staff at NHs and to provide social and nursing services that meet elderlies' needs. Overall, elderlies from low-income households who stayed in a private NH were more satisfied with the care provided than were those who stayed in government or even non-profit NH. We showed that elderlies satisfaction with NH care was strongly impacted by the quality of care facilities and staff members. Our findings

suggest that to increase elderly satisfaction, NH facilities should provide more flavorful meals, interesting activities, and better info about their care options. In addition to social services at the NH, the use of NH services needs to be facilitated by adjusting the high-priced of private NHs for low-income elderly adults. Monitoring care satisfaction and public dissemination of such information would promote customer-centered NH services, and ultimately increase the quality of life of its elderly.

### **Impact of Dining Room and Private Room on Elderly Satisfaction**

All NHs in Israel are characterized by an extensive full supply of food, because their elderly residents do not have the opportunity to prepare their own food. With central kitchen equipment, these NH institutions can rationalize essential work processes and thus save costs (Abbott et al., 2013). Eating meals together is also well organized, allowing meals to be shared by a large number of people at a minimum time and effort. The elderly, who are often housed separately, are brought together during mealtimes. A measure that, depending on the institution, may in turn necessitate special control measures. However, the dining rooms are always also a social place where elderly meet and there is an opportunity for communication, albeit to a very limited extent in some of the establishments.

Like every old people's home, the three types of an NH examined have a dining room where the main meals are served to all residents. This is a large room with a large number of tables at which the residents meet to eat without a fixed seating order. In contrast to the cafeteria, the dining room is not open to strangers, but due to the large community and the presence of the kitchen staff, it cannot be assigned to the private sphere either (Rijnaard et al., 2016). It is also not defined that way by most residents. The food is served in the pure care and mixed areas. Only the residents from one living area and, if desired, a few others, use the large dining room. These small dining rooms are also available to the residents as all-day lounges.

Eating meals together in the large dining room is quite popular with the residents of the NHs. Above all, the aspect of the community as positive or even very positive is cited as the most important by seven of the respondents. From Table 3.20 it is clear that the best meals of all the three types of NHs are provided by private ones, followed by non-profit NHs. The fact that residents who have major difficulties in eating due to physical handicaps prefer to eat alone can be seen as a further indication of the definition of the dining room as at least a partially public area.

The observation carried out confirms the assessment that the large dining rooms of the three NHs are no longer part of the private sphere; the users always enter this room in a complete wardrobe, as is customary in the public areas (Naja et al., 2017). In these cases, the quasi-familiar atmosphere of these rooms and the proximity to the individual rooms should lead to different satisfaction by the residents. What can be said is that the social contacts institutionalized by the fixed mealtimes are quite popular with the residents of the three NHs. This applies in particular to the lunchtime meal.

The communicative aspect of eating meals together is important for a large proportion of the residents. The fact that the dining room is seen as a more public sphere does not affect this social component. Rather, it seems to be the case that this promotes the impression of a normal visit to a restaurant, i.e. an event with a consistently positive connotation. The

division of the actually large dining room into small, manageable seating areas underlines this impression. There is no question of the atmosphere with its long tables that is typical of the traditional NHs. As shown in the Tables 3.19 and 3.20 above, the quality of the food served in the homes examined apparently plays a significant impact on the satisfaction of the elderlies.

According to the described criteria for NHs, the most complete possible control of the entire space by the employees is typical for this type of institution (Rijnaard et al., 2016). Therefore, there must be no possibility for the members to evade it, i.e. no private sphere is provided for them, or at most a very small one. The dormitories of these facilities are usually equipped with shared rooms. This allows a few employees to monitor many members. When single rooms are available, they have minimal amenities and serve as a room for serving sentences. In these cases, accommodation in such a room should by no means be regarded as a special privilege.

As already explained, it is characteristic of NHs that the separation between the places of work, home and play, which is usual in Western societies, has been abolished. For further analysis of everyday life in NHs, it is important that these individual places are further differentiated. Depending on the resources of the person or family, other specific rooms can be added for work, for children, for guests and many more. This classification is of course only to be understood as an example, individual variations are not uncommon and are often caused by architectural specifications.

In principle, however, the tendency towards the separation of more public and predominantly private areas can also be stated for the interior layout of an apartment (Mahieu et al., 2015). Because depending on the degree of familiarity, different rooms are made accessible to outsiders. The side open to general visitors is usually much better equipped and maintained than the rear regions.

The residents of single rooms, as in the homes examined here, do not have the option of dividing up the space. Only the bathroom remains closed to visitors. Otherwise, the bedroom and living room, which at least partially has to be used for eating, are identical. This puts them in the dilemma of either keeping their private room up to the standard of a front stage, which means a not inconsiderable amount of daily work, or presenting potential visitors with a view typical of the backstage. Although the single rooms, which are currently regarded as the standard in some private NHs, represent an immense improvement over shared rooms, for most residents they mean a considerable reduction in the space available compared to the living situation before moving into the NH (Jing et al., 2016).

The decisive criterion when defining a space as a private sphere is the question of the conditions of its access and the possibility of disposal. This means that a room can only really be described as private if the occupant decides for himself or herself who is to be granted access. In addition, s/he should at least mostly have the opportunity to design his/her room as s/he sees fit. This is the most important external demarcation from the previously discussed rooms in a nursing home. So if the individual rooms in a home can be correctly described as the private sphere of the residents, corresponding signs in subjective perception and behavior must also be able to be proven.

The three nursing homes examined had almost no single rooms for the residents in the living area, with the exception of a few special cases in private NHs. Therefore, at this

point, the certainly interesting consideration of life in double or multi-bed rooms must be considered as the mainstream option.

The side of the room door facing the corridor forms the beginning of the private sphere of the room. Many homes make frequent use of the option of labeling them individually (Makimoto et al., 2015). The labeling refers to self-made name tags and, depending on taste, the attachment of small floral decorations or the like. In many cases, however, the suggestion for such changes probably comes from the staff, as this makes it much easier for the residents to find their own rooms on the otherwise uniformly furnished corridors. Two features that are technically clearly part of the exterior door of a ward and convey this impression to both residents and visitors. They also offer practical advantages in that they meet the security needs of many residents, as was explicitly emphasized by some during the survey.

Almost all rooms in the NHs are essentially identical. From a narrow hallway behind the front door, a door leads to the toilet room and straight ahead into the roughly square room, the outside of which is completely occupied by a window front with a glass door leading to the balcony (Joseph et al., 2016). While there are built-in cupboards installed in the small hallway of the home, the furnishing of the actual room in the private NHs is up to the taste of the respective resident.

Most of the rooms in the comparable non-profit and government NHs are identical in construction; however, they are a bit smaller and usually two residents share a bathroom. Some of these rooms do not have their own balcony and it is only possible to take one's own furniture with her/him to a very limited extent. Due to the small size of the rooms and the fact that most of them are furnished with furniture from the NH, there are hardly any individual design options for the residents in these types of NHs. The rule is a wardrobe, a bed, an armchair and a rather small table by the window. In addition, however, all rooms have personal items such as pictures, photos or souvenirs, albeit to a varying extent. In the double rooms of private NHs, which are more common in this type of NHs, the possibilities for the residents are considerably greater, because the rooms are large.

The side of the room door facing the corridor forms the beginning of the private sphere of the room. Many homes make frequent use of the option of labeling them individually. The labeling refers to self-made name tags and, depending on taste, the attachment of small floral decorations or the like. In many cases, however, the suggestion for such changes probably comes from the staff, as this makes it much easier for the residents to find their own rooms on the otherwise uniformly furnished corridors.

The result is clear, in this point there is indeed a big difference between the three types of NHs. It should be emphasized that for the residents of private NHs, this aspect has the greatest influence on their well-being in their own room. Finally, questions no. 36 about the autonomy of the residents of these NHs are important for assessing the room as a private sphere. These answers also clearly show a trend among the residents of the private NHs towards activities outside their room. This trend, which continues across several questions, not only confirms the validity of the results in general, but it clearly shows that in this type of NH some of the elderlies show different space-use behavior. With very few exceptions, most residents spend the evening and of course the night alone in their rooms. This is confirmed by the fact that the residents spend most of the day in their own rooms.

The main problem is control of access. Although all residents have the key and the room doors are in fact almost always locked when they are absent, sometimes also when they are

present, but in practice this conflicted with the interest of the staff. Because, as was already registered when the survey was conducted, the prevailing habit here is to enter the residents' rooms immediately after knocking, without waiting for an entry request. On the one hand, this handling makes the work of the employees who are under time pressure easier, but on the other hand, it represents an intrusion into the private sphere of the residents that should not be underestimated; a practice that is even more widespread in the care areas of homes. However, the employees can refer to their duty of supervision with some justification.

In principle, however, it can be said that the power to dispose of keys is always an expression of the social relationship. Locks are not only mechanical locks, they also have a symbolic character (Even-Zohar, 2014). The power to dispose of the key is also an expression of power. The sometimes observed behavior of the staff is therefore a sign of an unequal relationship and can also give the residents a feeling of control in their own private sphere, which is a serious difference to 'normal' tenancies.

Therefore, this imbalance can be seen as an indication of the dominance of the staff. People who feel dominant often claim the right to move about as they please (Halperin, 2013). Even if it could not be determined during the investigation, it can be assumed that there is friction between staff and residents on this point.

### **Private or Ministry of Health Code**

Everyone thinks that looking for nursing homes or sheltered housing is long, tedious and involves a lot of expenses, but they don't know that there is a way to ease these expenses and procedures in a simple process called "obtaining the Ministry of Health code" or sometimes also called "participating in nursing hospitalization". Israeli elderlies have reached the moment when they have decided to look for a nursing home for themselves, and they certainly have heard the term "Ministry of Health Code" that can ease the expensive financial expenses.

What is the Ministry of Health code?

The Ministry of Health code is a special document that an elderly receives from the Ministry of Health, with the help of which s/he can receive partial or full funding whether the elderly person needs a long-term nursing home, or a nursing home for the mentally debilitated or only for the debilitated.

There are many people who, during the search for a suitable nursing home for their spouse or parents, encounter multiple difficulties, all of this mainly because the elderlies or their children do not have the financial capability that involves registering and financing a nursing home independently. In these cases, the Ministry of Health gives an option of help in financing a nursing home, the help is conditional on meeting various criteria, and is given by receiving a "code from the Ministry of Health".

The Ministry of Health, by virtue of its position, assists in financing, and supplements the participation fee for the price of a code. But in cases where the income is higher than NIS 9,500, it is important to know that the code will be accompanied by a deduction in the amount of funding. But despite this, there are many who are interested in receiving this code, even with full deduction, because this code gives an elderly significant protection against future price increases, and it also allows him/her to enter nursing homes, which exceed their financial capacity for self-registration.

When an elderly person received a "Ministry of Health code" and is hospitalized through the Ministry of Health in a nursing home, the ministry pays the cost of hospitalization to the institution in full, and collects the costs that are deductible from the family members. The family members of the hospitalized person do not have to pay an additional fee to the institution itself, and the institution is prohibited from demanding that they pay him any amount and/or request that they purchase themselves and/or bring equipment, medicines, etc., with the exception of medicines that are not in the health basket that require the approval of the family or the guardian.

The Ministry of Health provides assistance in financing nursing hospitalization according to the State Health Insurance Law. The assistance is conditional upon formal recognition by the Ministry of Health of the elderly's status as "nursing", and upon the payment of a deductible cost by the elderly or members of his immediate family (his wife and children) according to the income of each family member. The financing of hospitalization is called the "nursing code" of the Ministry of Health. It is important to know that not every nursing home has a license for the Ministry of Health code.

### **Satisfaction from the Nursing Homes during the Covid-19 Pandemic**

The performance of nursing homes during the Corona period can severely affect the satisfaction of elderly residents (Verbeek et al., 2020). Due to the pandemic that erupted in early 2020, nursing homes have had to change their policies and procedures to ensure the health and safety of its highly vulnerable elderly residents. These changes may include imposing restrictions on the visitor, changes in daily routines and activities, and additional personal protection measures for staff (Khalaily, 2022).

While these measures are necessary to prevent the spread of the virus, they can also impact the quality of life and overall happiness of elderly residents. For example, the restrictions on visitors can lead to feelings of isolation and loneliness, and changes in daily routines can disrupt the sense of stability and comfort residents may have previously experienced (Cohen-Mansfield, 2020).

However, satisfaction with these changes will depend on how well the nursing home adapts to the new circumstances and how well it is able to respond to residents' needs and concerns. A nursing home that takes a compassionate and communicative approach, providing residents with clear information and support, can help mitigate the negative impact of change and maintain high levels of resident satisfaction. In short, a nursing home performance during the Corona period can have a significant impact on senior resident happiness, but it is possible to maintain high levels of happiness through effective communication and adaptation. Similar to the previous variables above, the coefficient of Ministry of Health Code is significant and negative, while the coefficient of the Type of NH is significant and positive.

### **Conclusions**

This article provides a review regarding government policy in relation to the non-profit, private and governmental nursing homes in Israel in particular and the service provided to nursing patients in particular, and the standards according to which the institutions are run



and are responsible for their licensing and control over the quality of care provided to patients.

In recent years we have witnessed a growing perception that private facilities are efficient, while non-profit organizations and governmental institutions, which do not operate according to private business principles, are extravagant and inefficient. This approach has led to attempts to force non-profit and governmental organizations through more "business" management. In this review, there are studies that found no difference between the economic efficiency of non-profit organizations and that of business firms. Moreover, some studies' findings indicated that non-profit organizations operating in the nursing home industry contribute to public welfare by raising quality or lowering the price. Thus, it is not clear whether forcing a "business" way of managing them would improve the situation of the public. Some studies indicated that the government significantly influences the quality of service in the nursing home industry through the price that it sets for institutions. It would have been appropriate for the government prices to be determined according to the quality of the institution, but in Israel this is not done in this way. The Ministry of Health has initiated a plan for reform in the industry, according to which the rates paid to institutions are to be determined according to the quality of the institutions. The plan also sets uniform labor standards and prices for non-profit organizations and business institutions, which will eliminate the existing discrimination between the three types of institutions.

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## LEGAL RISKS TOWARDS THE INDONESIAN STATE OWNED ENTERPRISE (SOE)

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**Abstract:** *This research is focused on legal aspects, especially the risks faced in the management of state-owned enterprises which result in losses to state finances that have the potential to lead to acts of corruption. The constraints faced by the Directors of SOE due to the long-standing regulation of legal norms in the SOE Law and the Limited Liability Company Law have resulted in the ineffectiveness of the role of SOE Directors in building the national economy. The research is focused on risk management using normative juridical methods based on primary legal materials. The results of the study show that the laws governing SOEs appear discriminatory when compared to privately-owned enterprises and are not conducive to a very dynamic global business environment, even though these types of business entities are the main economic actors in national economic development. Therefore, synchronization efforts are needed through the harmonization of laws and regulations, so that the business risks carried out by the Directors of SOE are very small and provide legal certainty in managing business by SOE.*

**Keywords:** *Business risks, directors, and state financial losses, SOE.*

### Introduction

Economic development is a process in order to improve people's welfare on an ongoing basis. For this reason, state activities are required to focus on carrying out all economic activities through business entities, both private and government, one of which is in the form of a Persero State-Owned Enterprise (SOE). SOE as a business entity regulated in Law no. 19 of 2003 (SOE Law) is one of the pillars (pillars) of the national economy, which has the same management structure as a private entity in the form of a Limited Liability Company (PT) which is regulated in Law no. 40 of 2007.

The existence of SOEs and private entities often raises legal issues when SOEs and private entities do the same business, but the legal risks that arise are very different from the point of view of fairness and legal certainty in the business they run. In fact, legal risks often arise for the Directors of SOEs where the legal treatment is not the same as the Directors of a PT. Legal issues are getting more complicated when SOE Directors are overshadowed by fears of the emergence of 'state losses', while PT Directors are not like that. It is possible that this is due to the concept of capital owned by SOE, partly or wholly owned by the state

through direct participation from separated state assets. This situation shows that the state participates in business activities like those carried out by other private companies.

The business world is a world full of initiatives, strategies and quick steps full of competition, speed and accuracy in decision making. The business world is also not free from all the risks that surround it, which can even lead to risks that cannot be predicted in advance. This means that all company organs, the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors, must think and act according to business law (Makawimbang, 2014). Even though SOE shareholders are the government, including its Commissioners, the business steps carried out by SOE still refers to professional principles or attitudes. Businesses run by the Government from a legal standpoint can be justified as long as they are regulated in the SOE Law as a basis for the state to realize economic development policies so that they become actions that can be implemented.

From the description above, the two formulations of the problem that are being studied in this research are, first, why did the drafters of the law not harmonize the law regarding legal norms that contain contradictions in the management of SOEs so as to avoid ambiguity in their management. Second, how to formulate state loss norms that can provide certainty and fairness for Directors in managing SOEs.

### **Research method**

The research uses a normative and philosophical juridical approach using primary legal materials, namely the SOE Law, PT Law, and the State Treasury Law. In addition, secondary legal materials are used which provide explanations on primary legal materials in the form of books on business law, corporations, legal philosophy, state finances, Constitutional Court Decisions, Supreme Court Decisions and other Judicial Decisions as well as various other information obtained through business law journals and the mass media.

### **Literature review**

Conducting a legal risk analysis in business conducted by SOEs cannot be separated from the theoretical basis of the emergence of business based on contracts (agreements) as the underlying law. Whereas the principle of freedom of contract does not have unlimited meaning, but is limited by the responsibilities of the parties, so that freedom of contract as a principle is characterized as a principle of freedom of contract which is responsible. That is, there is a balanced legal position of the parties and provides benefits for both contracting parties. When a business is to be run by the parties, the main element needed is order as the goal of the business law itself. By realizing order, the various social needs of humans in society will be fulfilled. The emergence of order is based on the necessity to behave in a certain way in the form of rules (norms), especially legal norms formulated in laws to regulate parties in the business being carried out, as Thomas Aquinas said that law is a rational thought order for the common good (Ibrahim, 2009).

In business, a theory has also emerged that is often used by business people as the Business Judgment Rule, which is often a serious topic of discussion and has even become a legal basis for judges in deciding a case. The Business Judgment Rule is a theory or principle of

running a business that teaches that the decision of the Board of Directors regarding the company's activities cannot be contested by anyone, even if the decision in the future is wrong and detrimental to the company, as long as the decision meets the requirements, among others, has been made in good faith, done with the aim in accordance with applicable law, and is based on due care and is worthy of being trusted as in the best interest of a company (Fuady, 2002).

In business, it is also inseparable from the understanding of entity theory which describes a business entity that is separate from the owner, so that the relationship between business owners and managers is an agent relationship with principals who are bound by a contract. Everything that becomes the responsibility of the agent (management) is contained in the contract which at the end of each period must be accountable to the principal (GMS). Furthermore, one can understand a situation called the Internal Control System (COSO) as a reference for assessing business progress, which emphasizes, 'Internal control is broadly defined as a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories : effectiveness and operations, reliability of financial reporting and compliance with applicable laws and regulations'.

In the COSO Internal Control Framework, internal control includes five categories of controls designed and implemented by management to provide assurance that management control objectives will be met. Five components of internal control, namely: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. One component of the internal control system is a risk assessment. All business entities, both private and state-owned enterprises, face various risks from external and internal sources that must be considered by the Board of Directors. Economic, industry, regulatory, and operational conditions are constantly changing. Management is challenged to develop mechanisms to identify emerging risks. Various risks can be simplified into two groups, external risks, namely: economic, natural conditions, political, and social. Internal risk conditions, namely: infrastructure, personnel, process, technology.

## **Result and discussion**

### *State Interests Doing Business*

Indonesia with an area of more than 1,905 million km<sup>2</sup> and a population of more than 273 million people, shows the fact how large the coverage area and population must be managed in order to provide prosperity. The role of SOE as a business unit is certainly not enough to provide protection and welfare in various economic aspects needed for the progress of the nation, as required by the constitution (1945 Constitution).

Economic progress will not be realized without legal objectives in terms of certainty and justice that can be obtained by every citizen. Development is carried out comprehensively and touches all aspects of people's lives, not only focusing on one particular area such as the economy. Economic development must be accompanied by mutually reinforcing efforts with the development of other fields, particularly the legal sector. If this is the case, business law, also often called economic law, becomes two sides of a coin that cannot be separated. The connection between the two fields is confirmed by Hartono (1982) by stating, '... thinking in the economic field also changes and determines the foundations of

the legal system in question, then the enforcement of appropriate legal principles will also facilitate the formation of the desired economic structure, on the other hand the enforcement of the principles of legal principles that are not appropriate will actually hinder the creation of the economic structure that aspires to be (Hartono, 1982).<sup>1</sup> Therefore, laws that are built in the face of very rapid economic progress and development are not a stand-alone problem. The economy is indeed the backbone for social welfare. However, social justice which is to be realized through economic progress, can only be carried out through well-formulated legal institutions.

The meaning of law in economics becomes the deepest meaning to determine what is permissible and what is not, as emphasized by Marcus T. Cicero (Ibrahim, 2004), 'law is the highest reason that is instilled by nature in humans. to determine what is allowed and what is not allowed to be done'. When the state has an interest in doing business, it is only natural that the business being run requires profit. Because talking about business is talking about how to get a profit, as emphasized by Burton (1996) that the word 'business' is broadly defined as all business activities carried out by people or entities on a regular and continuous basis, in the form of activities of procuring goods or services. as well as facilities to be traded, exchanged, or leased with the aim of making a profit (Burton, 1996). Problems arise when SOEs do not only gain profits in the business they run. Then, the term 'state loss' emerged as a result of the business being run, giving rise to at least two main questions. First, does a business run by the state have to make a profit? In other words, can the state suffer losses from the business it runs? The next question is, if the state suffers a loss, who should be found guilty and legally responsible for the losses incurred?

Reflecting on the emerging cases that the researcher will describe, the two main questions above are interesting to study. Until now, academics as well as practitioners in the fields of economics and law, continue to have a struggle of thoughts in assessing the issue of order in state-run businesses through SOE institutions on the basis of SOE Law No. 19 of 2003. That is why, legal risks in businesses run by SOEs are the focus of researchers in this paper. Moreover, there are no norms in the law that can provide protection for the Directors of SOE, even though the Directors have carried out their business activities on the basis of good faith and good business principles decided by the Directors of SOE.

However, since the issuance of Government Regulation (PP) No. 23 of 2022 further emphasizes that it is important to understand the business judgment rule doctrine. Article 27 of PP No. 23 of 2022 as a change from PP no. 45 of 2005 has confirmed the meaning of the business judgment rule that can be used in practice, with a very firm formulation. It is stated that each member of the Board of Directors cannot be held responsible for the losses of SOE if they can prove that: (i) the loss was not due to their fault or negligence; (ii) has carried out the Management in good faith and prudence for the benefit and in accordance with the aims and objectives of the SOE; (iii) does not have a direct or indirect conflict of interest for Management Actions that result in losses; and (iv) has taken action to prevent the loss from arising or continuing.

### *Risks in Business Management*

Any business run by SOE (including private companies) can be ascertained that there is no risk. Risk is an unavoidable part of every business that is run. When the business is run, the parties understand and agree on the essence of the business to be carried out. That is

why, the law means that the parties are bound by a promise, which in law is known as 'pacta sunt servanda' as the fundamental principle underlying the birth of an agreement. This principle which comes from Latin means that promises must be kept', so that in positive law the norm formulation becomes, 'every agreement made legally applies as a law for those who make it'. In detail, the principle referred to is seen in the provisions of Article 1338 of the Civil Code which states, 'all agreements made in accordance with the law apply as laws for those who make them' (paragraph 1). Then, 'the agreement cannot be withdrawn other than with the agreement of both parties, or for reasons determined by law' (paragraph 2).

From a legal standpoint, risk is defined as anything that causes an event to become uncertain and detrimental. Legal risk is a risk faced by business organizations related to legal issues, generally the result of non-compliance with applicable laws and regulations. For example, the risk of a contract that is not understood about the rights and obligations of each party. The result is the emergence of monetary losses such as cancellation of goods orders, as well as non-monetary losses such as the company's reputation in the public eye. The easiest risk to explain is the risk of inconsistent public policies. Public policies that have broad implications are always made using legal instruments. The law that is formulated often changes according to the interests of the drafters (makers) of the rules. Such risks are often called political risks, which are then commonly called legal politics. In addition to the risks above, other risks may arise, such as the risk of natural conditions, namely floods, fires, earthquakes which result in damage to buildings, resulting in the inability to obtain raw materials or loss of workers (Fuady, 2002).

According to the researcher, legal risk is a priority that must be understood because legal risk will have an impact on situations that want conditions that are certain and fair. How is it possible that business will run well and smoothly, if the law does not provide certainty and justice for the business world. So it is appropriate if the purpose of law for economic sustainability in the form of justice, certainty, benefit and order, becomes a business benchmark that must be practiced so that SOEs can be trusted.

### **Understanding of Business in Judge's Decisions**

#### *Karen Agustawan Case*

The case of Karen Agustawan is a business case that contains quite a big risk for SOE Pertamina. The case began when Pertamina's subsidiary led by Karen invested in oil drilling in Australia's Manta Gummy Block in 2009. Then, Karen felt she was being criminalized over the investment business, which was suspected of violating procedures in Pertamina's acquisition process. Even though all procedures have been carried out with the approval of the Commissioner up to due diligence to prevent risks (Irianto, 2020).

The risk arises where the public prosecutor demands a sentence of 15 years in prison and a fine of 1 billion because it is considered to have caused losses to the state's finances of IDR 568 billion. The business risks faced by Karen show that there is legal uncertainty from the law governing the legal status of SOE, namely whether SOE finance is the scope of state finance or not. With regard to the Karen case, two questions arise. First, what is the essence of the formation of SOE Pertamina? Second, is Pertamina's business subject to PT Law No. 40/2007 or not? Read SOE Law No. 19 of 2003, it seems that SOEs have the essence of 3 interests, first, providing great benefits to the community; second, balancing

private power; third, it is a source of state revenue in the form of taxes and dividends. Two of these three interests provide a real essence that SOE is no different from a private business entity called PT. Taxes paid by state-owned enterprises and the private sector are equally the mainstay of the government to fill the state budget coffers.

If so, Pertamina's SOE business is aimed at seeking profits for the state. The founders of the SOE Law realized the essence of forming SOEs, which is read in Article 2 paragraph 1 of the SOE Law), namely pursuing profits and pioneering business activities that the private sector and cooperatives could not yet implement. In other words, Pertamina is philosophically managed professionally like a private company (PT). The word 'professional' connotes that management is carried out with a strict monitoring and control mechanism. The existence of the 'Commissioner' and 'GMS' is the same as the organs in the Company Law.

The essence of SOE Pertamina legally should have understood that 'separated wealth' as SOE capital is not interpreted as 'state wealth' but becomes 'SOE wealth' or 'Pertamina wealth'. Because state-owned companies are in the form of limited liability companies whose capital is divided into shares. Against this condition, Rajaguguk (21019) emphasized in his writings that a legal entity has its own assets, because legal entities as legal subjects have rights and obligations like humans, can also sue and be sued and have their own assets (Rajaguguk, 2019). Then, the legal issue is, does SOE Pertamina have to comply with the Company Law? It turns out that Article 3 of the SOE Law states that other statutory provisions apply to SOE, which later in the explanation of the SOE Law mentions the PT Law and that it is managed according to the principles of a healthy company. However, when business risks arise and SOE Pertamina (or Pertamina's subsidiary) suffers losses, why are the Directors sued because they have 'harmed state finances?'

The Karen case gives legal meaning that the essence or existence of SOEs seems meaningless. SOE capital is again interpreted as 'state wealth'. In fact, from a juridical point of view, the included capital should no longer be the property of the participating party, but the property of the SOE company itself. That is, the law has stated that there is a separation of wealth between the wealth of shareholders and the company. With this understanding, 'detriment to state finances' as an element of corruption is regulated in the Law on Corruption Crimes No. 31 of 1999 which was amended by Law No. 20 of 2001, should no longer apply because the legal principles of SOE business are subject to the Company Law.

The principle of submission is known from the desire for SOEs to become independent legal entities and have assets separate from their owners (Including being professionally managed according to its business objectives. which is illustrated in the elucidation of Article 91 of the SOE Law). Outsiders may not interfere in the management of SOEs. As long as the Board of Directors makes legal decisions based on the business judgment rules doctrine, they can be protected from criminal charges. Based on the business judgment rules, the decision of the Board of Directors as long as it is considered a business decision, has good intentions, there is no conflict of interest, the law will protect it. Supreme Court Decision Number 121 K/Pid.Sus/2020 finally won Karen. The Supreme Court stated that Karen was proven to have committed the actions charged in the public prosecutor's indictment, but her actions did not constitute a crime. Then releasing Karen from all lawsuits (ontslag van alle rechtsvervolging).



According to the business judgment rule doctrine, judges may not judge wrong and right on decisions or legal actions that have been taken by the Board of Directors. The judge must ask for the opinion of an expert in his field regarding the correctness of the legal action decided by the Board of Directors. When SOEs make a profit, the profit will return to the state through taxes. Then, what if the business continues to lose money? That is a business risk that must be borne. So, the understanding is not to judge when a loss occurs then it is considered detrimental to the state and is punished for corruption. Loss and profit are part of the business itself. The business balance every year can be a loss and you don't pay taxes.

#### *Garuda Case Financial Statements*

Case of PT. Financial Statements (LK). Garuda in 2018 has caused an uproar in the public. Chaos ensued when two Garuda commissioners were reluctant to sign the LK because they did not agree with the management's decision. This situation raises two questions, first, does the Commissioner's disagreement with signing the financial statements make the financial statements legally invalid? Second, if the LK is valid without being signed by the commissioner, how far is the legal responsibility for Garuda LK?

The legal side is how the roles and responsibilities of the Commissioner are in the Company Law and the SOE Law. Because PT. Garuda as a SOE has become a big concern of the public regarding flight services to consumers. It is known that LK has been audited by an Accountant Office based on financial accounting standards, but a problem arises with receivables from cooperation transactions with other parties. Then, trying to find a solution, suggest the Commissioners and Directors seek the views of competent experts to solve it. The commissioner as an important organ in the company according to the norms of Article 66 of the Limited Liability Company Law plays a strategic role in carrying out the supervisory function, including reviewing LK before submitting it to the GMS. LK becomes a very important legal issue to be accounted for. Because if the LK is not true, the Company Law emphasizes that Directors and Commissioners must accept the legal consequences of joint responsibility for the aggrieved party, as stated in Article 69 paragraph 3 of the Company Law.

This arrangement is also clearly stated in Article 23 paragraph (2) of the SOE Law that reports must be signed by the directors and commissioners to obtain approval from the GMS. However, it may not be signed as long as there are written reasons. Legal problems arose when Article 67 paragraph (2) of the Company Law stated that if the directors and commissioners did not sign the LK, those concerned must provide written reasons. That is, is it interpreted that LK is deemed to agree (even if the written reasons are not agreed) and then proceed to seek approval from the GMS? Or is LK interpreted as not agreeing? These provisions seem contradictory because the law does not explain them, so that legal uncertainty arises from the LK that has been prepared. Commissioners as an organ that is deliberately set up to carry out supervision, has an important legal meaning so that the company runs on the right track. Moreover, the commissioners are assisted by an audit committee in accordance with Article 121 UUPT. In the researcher's opinion, the law deliberately forms commissioners with clear legal responsibilities. However, what is the use of the commissioner if the LK is not signed and then deemed approved, according to Article 67 paragraph (3). This rule seems to negate the existence of the Commissioner.

## **Analysis of State Losses**

State losses have been formulated in three laws, namely (i) Law no. 1 of 2004 concerning the State Treasury, (ii) Law no. 15 of 2006 concerning the Supreme Audit Agency (BPK), and (iii) Law no. 31 of 1999 concerning the Eradication of Criminal Acts of Corruption (Tipikor Law) on the Elucidation of Article 32 paragraph (1). However, the meaning of state finance appears in Law no. 17 of 2003 concerning State Finance. Article 1 number 22 of the State Treasury Law and Article 1 number 15 of the BPK Law state the same understanding of State Losses, namely: "State/Regional Losses are a shortage of money, securities, and goods, the real and definite amount as a result of acts against the law, whether intentional or nor negligent."

Whereas Article 32 paragraph (1) of the Corruption Law states, "In the event that investigators find and are of the opinion that one or more elements of a criminal act of corruption do not have sufficient evidence, whereas in fact there has been a loss of state finances, the investigator shall immediately submit the case files resulting from the investigation to the Prosecutor." State Attorney to carry out a civil lawsuit or to be handed over to the agency that is disadvantaged to file a lawsuit'. Furthermore, the elucidation of Article 32 paragraph (1) of the Corruption Law states that what is meant by "there has actually been a loss of state finances is a loss whose amount can already be calculated based on the findings of the competent authority or accountant.

In fact, there are two terms related to state losses, with 3 types of designations, (i) state financial losses; (ii) state losses; and (iii) losses to the country's economy. All three certainly have different legal meanings. Even with regard to tax issues, the term 'loss on state revenue' appears. Therefore, the researcher does not explain in detail regarding the 4 terminologies in question. The important point is to understand that the country has experienced financial losses in the country.

Furthermore, the Supreme Court Circular Letter (SEMA) No. 4 of 2016 concerning the Enforcement of the Formulation of the Results of the 2016 Supreme Court Chamber Plenary Meeting as a Guideline for the Implementation of Duties for the Court, which expressly states that the agency authorized to declare whether there has been a loss of state finances is the Supreme Audit Agency which has constitutional authority while other agencies Other agencies such as the BPKP/Inspectorate/Regional Apparatus Work Unit remain authorized to conduct inspections and audits of State financial management but are not authorized to declare state financial losses which must involve BK to calculate state losses. However, in certain cases, judges based on the facts of the trial can assess whether there has been a loss to the state and the amount of the loss to the state.

The said provision intends to state that only one institution has the authority to calculate state losses. The problem is, in calculating state losses in several tax cases, the calculation of state losses is not carried out by BPK but by other parties, such as Public Accountants or Tax Auditors for cases of losses on state revenues. When the element of 'state loss' in a criminal case becomes the main element, the element of 'state loss' should be proven materially. Justice is what the Constitutional Court (MK) decided through decision no. 25/PUU-XIV/2016 relating to the review of the Corruption Law No. 31 of 1999 which was amended by Law no. 21 of 2001, specifically regarding the phrase "can" in the formulation of Article 2 and Article 3 of the Corruption Law.

If real losses are not proven, the suspect must be acquitted. Moreover, calculating the real loss according to researchers is not easy. For example, the meaning of 'loss' in the insurance business must be understood by asking an insurance expert, so that it can be proven whether a business 'loss' can be equated with a 'state loss'. That business can lose and can profit, is a common business fact. For example, PT. Ali bought 1000 shares of PT. Budi Tbk which is listed on the Exchange worth IDR 100 million. Then on 31-12-2018 the share price on the Exchange was recorded at IDR 80 million. Even though the shares have not been sold, PT. Ali is required to admit a loss of Rp. 20 million in the 2018 financial year. This is said to be a realized loss. If the calculation of state losses must be real (certain), there should not be even a single rupiah of miscalculation. If certain parties can prove a mistake in calculating a loss of one rupiah, the judge must acquit the party who can prove it.

Justice that is certain is the demand of all parties in the settlement of cases (civil or criminal). Justice that is upheld according to law is justice that has certain values. The certainty lies in the amount of the loss calculation, not the calculation based on assumptions. The conflict between the meaning of justice and certainty becomes easy to understand if rational considerations are required in its implementation (Artadi, 2006)). That is why the Constitutional Court's decision No. 25/PUU-XIV/2016 is a law with rational considerations that are certain to be obeyed together. If so, the settlement of cases in SOE, including the settlement of the law on the SOE Jiwasraya case in the context of calculating state losses, must be aimed at providing legal correctness.

The legal phenomenon of SOEs managing public funds that are suspected of violating the law, such as the Jiwasraya SOE, is an interesting discourse to study. Because the problem of managing public funds is an art of how to gain profits with the variety of investments offered and their derivations. At this point, trust becomes a bet on how profit and loss will be obtained by the owner of the funds. Assessing profit and loss, the essence can be seen from two sides, the legal side and the accounting side. The term unrealized loss in the accounting dictionary is often used as an assessment that can result in public fund managers being blamed. Therefore the meaning of loss must be clear according to law. When a business is running, profit or loss is common in business. On the accounting side, the meaning of loss has a double meaning, realized loss and unrealized loss. In that case, the law separates the two meanings, otherwise it is very dangerous for business.

When corporations talk about profits and losses in business, profits and losses are subject to the realm of accounting according to the universal Financial Accounting Standards (SAK). Meanwhile accounting profit and loss is flexible, flexible and dynamic. Because accounting follows business, not business follows accounting. Then, how does the law assess the condition of an unrealized loss? When a SOE is suspected of violating the law, the position of the loss must be clear, whether the loss is real or an apparent loss. Law, especially criminal law which runs on a rigid philosophical footing, will talk about legal facts, aka real ones. The concept of 'real' is a legal fact which is interpreted as a definite nature which in law is said to have the value of certainty. Therefore, the concept of loss (state loss) in a criminal context must be real or real. While the apparent loss, still in the form of notes on paper, has not actually occurred. If so, proof according to law must be real, not pseudo. So, accounting evidence with legal evidence is not the same. The accounting dictionary (SAK) is based on business and flexible, while law is rigid.

If SOE PT. ABC has land assets worth IDR 2 billion and shares in PT. Telkom 1 billion, recorded on the profit and loss balance as of 31-12-2019. Due to certain conditions, the market price of land fell to Rp. 1.5 billion and the share value fell to Rp. 900 million, then the total assets of PT. ABC recorded a decrease of Rp. 600 million. So, the loss of PT. ABC is called unrealized loss (apparent loss) because it hasn't really happened yet. The situation is different if the land is sold for IDR 1.5 billion, then a loss of IDR 500 million is true because the intention to sell and the land sale transaction has occurred. In that context, SOE losses must be separated between those that are unrealized losses and realized losses. Unrealized losses in shares contained in investment instruments traded on the Stock Exchange, in the record of assets can be seen in the share price, which every time the condition fluctuates. If the condition of the price drops, the accounting records show a decrease in the value of the asset, aka loss.

The legal issue is whether the apparent loss or actual loss is said to have violated the law? Even if a real loss has occurred, the law cannot state that there has been a violation of the law. Losses are not due to breaking the law but due to certain conditions (legal market conditions). The law does not assess corporate (SOE) losses solely in the sense of state losses. As long as the concept of the business judgment rule is implemented by the Board of Directors, losses are not negative and are considered detrimental to the state. That is what happened to the case of Karen Agustiawan, which the researchers reviewed in the section above. Assessing losses from a legal standpoint must be done with caution so that SOE business actors are not 'imprisoned'. Business law is law that evaluates business over a long period of time. This year's loss may be able to provide profit in the next ten years, as long as careful calculations have been made. That is why the construction and legal substance must be understood for legal certainty. Business speed is often not followed by legal conditions [7]. Therefore, a wise attitude is needed to assess losses from an accounting and legal perspective. Especially the criminal aspect so that there is no confusion in the implementation of the business run by SOE.

The context of loss on the tax side, for example, tax law already understands it. The term 'accounting profit' (in practice it is called 'commercial profit') is first adjusted to become 'fiscal profit' according to the norms of Article 6 and Article 9 of the Income Tax Law No. 36 of 2008, including 'commercial loss' to 'fiscal loss'. So, the two go hand in hand. That's how taxes are enforced. When several SOEs were hit by legal cases, the law considered that there had been unlawful acts which resulted in state losses. At this point, according to the researcher, the central role lies with the Commissioner as stated in Article 64 of the Company Law.

Law is the yardstick for judging business interests. Legal judgments must be carried out in the context of business interests, and not in the context of law enforcement alone. Law enforcement on the will to punish, must be changed with legal judgments for mere business interests. Law enforcement must be carried out in a just manner. Because law enforcement as a concrete form of law enforcement greatly influences legal feelings, legal satisfaction and legal benefits (Manan, 2009). While the legal assessment is an assessment of balance as well as maximization of assessing a business that is run in the right way for the benefit of society, not just the interests of the business.

## **Conclusion**

Based on the description above, two things can be concluded as follows. First, the business run by the state through SOE based on Law no. 19 of 2003 concerning SOE has contributed a lot to the expected results. However, problems arise in terms of legal risks to businesses run by SOEs, particularly with regard to legal norms which are often used as a basis in the context of law enforcement by law enforcement agencies such as the Attorney General's Office and the KPK. This is related to the formulation of norms, among others, regarding the notion of state losses, which do not have legal clarity even though they have been regulated in several laws.

In Karen's case, it is clear that there is a way of thinking of judges at the Supreme Court level who judge legal issues not solely on the formulation of norms, but on the meaning of legal doctrine that commonly occurs, namely the doctrine of business judgment rules. This gives a legal meaning that the legal treatment of SOEs is the same as the legal treatment of private companies by referring to UUPT No. 40 of 2007. Therefore, it is necessary to harmonize the two laws, both the SOE Law and the PT Law, in order to reduce ambiguity in law enforcement. Second, the formulation of the norms required is regarding the elements of state losses and the parties who should carry out the calculation of state losses. This element is the main element of ensnaring perpetrators as a business risk that has been carried out. Therefore, clarification is needed by reformulating the norm of 'state loss' in several laws that have regulated it.

## **Recommendation**

In the interest of law to fulfill a sense of justice and legal certainty, it is necessary to synchronize the SOE Law, PT Law and the Corruption Law, so that in the future business people, SOE and private, can avoid business risks, so as to provide certainty and order in business which will be executed.

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## EMPLOYEE PERFORMANCE, REMUNERATION AND RETENTION IN PUBLIC SERVICE OF SOUTH AFRICA

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**Abstract:** *Employees are the organisation's most valuable resource, and the ability of employers to attract, retain, and reward appropriately talented and competent employees determines an organisation's success or failure. The study seeks to determine the impact of a stagnant remuneration structure on employee performance and retention in the Department of Public Service and Administration (DPSA), South Africa. A parallel convergent mixed-methods research design was used in the study. The data draws from 423 structured questionnaires and 31 key informants administered to the employees and stakeholders in the DPSA. The data was analysed using binomial logistic regression and thematic analyses. The binomial logistic regression findings support the null hypothesis and corroborate past findings that higher remuneration leads to higher employee performance. Low performers were highly insecure about the government's stagnant salary and early retirement proposition. Complementarily, the thematic analysis identified the basic salary, medical aid, pension, and housing allowance as key determinants of remuneration in the public service. Career development, improved administrative capacity, and a positive work environment are key strategies for improving employee performance and retention. The study recommends the most sustainable employee retention strategies during periods of wage stagnation. This study adds to the literature by employing a convergent parallel mixed-methods design, drawing on binomial logistic regression analysis and thematic analysis, a methodological contribution to the theory, and empirical evidence on how the public sector can balance employee performance and retention in instances of stagnant remuneration structures.*

**Keywords:** *Performance Management; Stagnant Wage Bill; Parallel Convergent Mixed Methods; Department of Public Service and Administration, South Africa.*

### Introduction

Employee performance is a critical component of an organisation's ability to achieve its goals and objectives. Employees become concerned about their compensation relative to their input when an organisation intends to reduce remuneration as a cost-cutting measure.

According to Urbancová and Andrová (2017), a company with a stimulus remuneration system that includes a variety of employee benefits will have a competitive advantage in attracting and retaining labour market employees.

The public sector has experienced wage stagnation for a decade (Nickson, Thomas, Vira, and Urban, 2021). The South African public sector wage bill has been a source of concern among policymakers and stakeholders. The bill is excessive and unsustainable (Department of Public Service and Administration, 2020; National Treasury, 2020a). The high wage bill crowds out public expenditure, especially priorities for socio-economic development and industrial growth. The budget deficit widens against a stagnant tax base (Rakabe, 2019). The total government compensation expenditure has tripled between the 2006–07 and 2018–19 financial years (National Treasury, 2019). It would appear from these developments that the government has been generous when implementing salary and wage increases without assessing whether the wage bill would be affordable in the future (Rakabe, 2019). The salary and wage increases are above inflation and account for the most significant portion of the compensation expenditure. In 2020, almost half of the government's revenue went towards public servants' salaries (South African Government, 2020). The literature is scant on how the public sector can balance employee performance and retention in instances of an unsustainable wage bill. Prior studies have generalised the relationship between remuneration and employee performance-retention in different organisations with mixed findings drawing on quantitative and qualitative methodologies (Bunyamin, Wiyarni, and Sudaryoto, 2020; Bussin and Brigman, 2019; Nahar and Zayed, 2019). Using the convergent parallel mixed-methods design, this study adds to the literature. It uses binomial logistic regression analysis and thematic analysis to look at and make policy suggestions for how the government can balance employee performance and retention when there are high wage bills and a failing economy. This study utilised a mixed methods approach. The quantitative phase raised the question:

What is the relationship between remuneration and employee performance?

In response to the research question, a binomial logistic regression model was utilised, based on the following hypotheses:

H<sub>0</sub>: Higher remuneration does not lead to higher employee performance

H<sub>1</sub>: Higher remuneration leads to higher employee performance.

The qualitative phase raised the following questions:

Which employee retention strategies are prevalent in the DPSA?

What are the recommendations for employee performance and retention in the public sector, which is facing debt and a huge wage bill?

In practical terms, the new knowledge gained from observing the relationship between a stagnant remuneration structure and employee performance and retention may be useful in the retention and promotion of organisational citizenship behaviours among employees. The rest of the article is as follows: Following the examination of the literature, the research methodology, results, discussion, conclusions, and recommendations for future research are presented.

### **Literature review**

Employee remuneration in the public sector now makes up a third of state spending after increasing by an average of 2% annually over inflation for the past ten years (Business Technology, 2022). Between 2006–07 and 2019–20, total headcounts increased by 16%, from 1.15 million to 1.33 million. The increase in public-service remuneration has been driven by three main factors: the introduction in the late 2000s of occupation-specific wage dispensations, annual cost-of-living adjustments, and pay progressions. Statistics South Africa survey data also suggest that public-sector remuneration growth has outpaced private-sector compensation growth over the past decade



(National Treasury, 2020b). The government wants to cut the cost of wages by R160 billion over the next three years (Fourie and Blom, 2022). Reducing the public sector wage bill is a key component of the fiscal consolidation strategy, but doing so would require complex salary negotiations with active unions (Analytica, 2021).

Most of the evidence from the past shows that government salary bill reductions in developed countries are more likely to lead to large and long-lasting reductions in fiscal deficits than policies that focus mainly on tax increases. Although it will be challenging from a political point of view, cutting the government's wage bill will be necessary (Burger and Calitz, 2021). The National Treasury has committed to cutting the public sector wage bill and has proposed freezing public employee compensation. In order to stabilise public finances and prevent a financial crisis, efforts are being made to cut the public salary bill (Shai, 2021). The failure to address issues like the unaffordable public sector wage bill has become a barrier to progress (Mlambo, Zubane, and Thusi, 2022). The Public Servants Association of South Africa (PSA) is opposing the government's intention to cut the wage bill in order to pay off the national debt, arguing that government workers deserve a salary increase (Mnqayi, 2021).

The 2021 public sector wage agreement was higher than expected during the [Budget Vote] for 2022 (R20.5 billion in 2021/22 and R20.2 billion in 2022/23). As part of efforts to keep the public sector wage bill from going up (Department of Public Service and Administration, 2022b), departments must also manage the filling of both important and non-critical positions within their staff establishments in order to meet their goals and stay within the compensation ceiling.

Despite the stagnant wage bill, the government provided a 3% pensionable increase overall. This offer is in addition to the 1.5% pay progression that is due to all qualifying employees (South African Government, 2022). The government considers the 3% salary raise offered to public employees generous, notwithstanding the precarious fiscal situation (South African Government News Agency, 2022).

Burger and Calitz (2021) suggested that a right-sizing and fit-for-purpose civil service reform would be the key to lowering the wage bill. According to Mdluli, Mncayi, and McCamel (2019), cutting the salary bill by hiring more young people will cost less and significantly help to minimise youth unemployment. *Businessstech* (2022) articulated that, the South African government will need to contemplate staff layoffs to reduce its salary costs to more sustainable levels over time.

According to Onyekwelu, Dike, and Muogbo (2020), the idea of remuneration dates back to 2150 BC, when Sunierian social orders actualised the primary laws to repay workers for real bodily injuries. With time, the concept gained contemporary significance and evolved into a viable and effective tool for compensating workers. Bunyamin et al. (2020) state that remuneration is a reward that an employee gets in return for their input into the organisation. Remuneration can be monetary (salary) or non-monetary, such as gratitude expressed directly or indirectly to the employee by the employer. Remuneration is considered an important tool for employee performance because it aims to attract talented and capable employees and motivate them to increase performance (Bunyamin et al., 2020).

Employee performance is the outcome of the achievement attained by an employee within the organisation based on their duties, with the aim of assisting the organisation to achieve its goals and objectives (Larsen, Gunawan, and Sumali, 2018). The strategy to overcome areas of underperformance is clear because 21 out of 355 DPSA employees got performance rewards during 2020–2021, as opposed to 52 employees for the performance cycle 2019–2020 (Department of Public Service and Administration, 2022a).

Mahadi, Woo, Baskaran, and Yaakop (2020) defined employee retention as an organisation's capacity to prevent employee turnover, or the number of people who quit their job voluntarily or involuntarily during a given period. Therefore, increasing employee retention impacts the performance and success of an organisation. Kumar (2022) asserted that employee retention has gained much attention since organisations started seeing their employees as significant assets. The

employees prefer to remain within an organisation that offers a good compensation package, which helps improve employee performance. Soomro et al. (2021) affirmed that utilising an organisational reward system is one of the most established methods of controlling employee retention. Organisations avoid hiring new employees and prioritise employee retention because hiring new employees is more expensive than retaining the current workforce (Ramapriya and Sudhamathi, 2020). Organisations should recruit younger employees because they likely have the required skills and are likely to stay and grow within the organisation (Cloutier, Felusiak, Hill, and Pemberton-Jones, 2015). According to Barone (2019), the level of qualification of officials is critical in enhancing productivity; thus, limiting educational inequalities is a key driver for promoting equal opportunities. Finally, retention benefits both the employee and the employer because it fosters a long-term working relationship and encourages teamwork (Rakhra, 2018).

According to a study by Syahreza, Lumbanraja, Dalimunthe, and Absah (2017), pay has a big effect on how well people do their jobs. Sibanjo, Adeniji, Falola, and Heirmsmac (2014) found that there is a strong relationship between remuneration and employees' performance and retention. Furthermore, employee retention and remuneration are directly related (Soomro, Hussain, and Abdullah, 2021). According to research by Laing (2019) on employee retention strategies, salary packages have a significant role in decision-making when it comes to boosting the rates of employee retention. Onochie (2020) highlighted the fact that employee remuneration is important to employees and does have an impact on employee retention in the public sector. Subsequently, empirical studies on remuneration and employee performance by Alfian and Pratama (2018) posited that remuneration positively affects employee performance.

### Research Methodology

The research methodology must provide an orderly and unambiguous method to conduct research with appropriate constructs clearly located in an organised and unsophisticated manner.

#### *Research design*

The study adopted a mixed-methods convergent-parallel design to analyse qualitative and quantitative findings gathered using a structured questionnaire and key informant interviews in response to the study questions.

#### *Quantitative approach*

The quantitative methodology data draws on a structured questionnaire. DPSA employees amount to 423 (Department of Public Service and Administration, 2019). Stratified random sampling was employed to select 340 respondents, using the Raosoft sample size calculator for each stratum. The characteristics of the respondents are shown in Table 1.

**Table 1: Sampling frame**

Salary band	Population	Sample size
Lower skilled (level 1-2)	19	19
Skilled (level 3-5)	69	59
Highly skilled production (level 6-8)	82	68
Highly skilled supervision (level 9-12)	139	103
Senior management (Level 13-16)	109	86
Occupational Specific Dispensation	5	5
<b>Total</b>	<b>423</b>	<b>340</b>

Source: Department of Public Service and Administration (2019)

*Measuring instruments*

A self-administered questionnaire called the Employee Survey was used to collect data. The questionnaire consisted of biographical information, occupational stress, uncertainty, job satisfaction, and organisational commitment scales. The biographical information was collected using a questionnaire developed by the researchers to get information regarding the respondents' gender, age, highest qualification and working experience. To ensure the face and content validity of the measuring instruments, this was ensured by checking whether the questionnaire and the key informant interview schedule met the research objectives, responded to the research questions, and tested the hypotheses. To ensure concurrent and predictive validity, the questions were constructed in consultation with the study leaders. The data collection instruments were crafted to gather valid data, which contributed towards meeting the research objectives, respond to the research question and test the hypotheses. To ensure construct validity, a pilot study was conducted.

**Data processing and analysis**

The section outlines the quantitative and qualitative data processing and analysis of the study.

*Quantitative approach*

Using logistic regression models, mainly to measure employee performance, is not novel. Prasad, Vaidya, Srinivas and Kumar (2017) reported the results of employee factors that influence the performance system using the logistic regression model. Their study considered job knowledge, skill level, job execution, initiative, orientation, teamwork, and compliance with policies and practices. This study adapted Prasad et al. (2017) methodology, which specified the logistic regression model as below.

$$\text{Logit}(Y) = \text{naturallog}(\text{odds}) = \ln\left(\frac{\pi}{1-\pi}\right) = \alpha + \beta X \dots \dots \dots \text{Equation 1}$$

Where  $\beta$  is the regression coefficient;  $\pi$  = Probability (Y=outcome of interest), which is employee performance |X=x and  $\alpha$  is the Y-intercept, and when expanded to the multiple predictors of employee performance, the equation is:

$$\text{Logit}(Y) = \text{naturallog}(\text{odds}) = \ln\left(\frac{\pi}{1-\pi}\right) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots \dots \dots \text{Equation 2}$$

Where  $\beta$ s are regression coefficients, and Xs are a set of predictors of employee performance. The  $\alpha$ s and  $\beta$ s draw on the Maximum Likelihood (ML) method, the preferred method over the weighted least squares method.

**Dependent variable and independent variable**

The dependent variable was binary "Performance" measured as 1 = Low performer and 2 = High performer. Variable(s) entered into the study are; Remuneration in terms of salary, Remuneration compared to other related organisations, Contribution to employee medical aid, Contribution to employee pension, Remuneration package able to attract and retain employees, Job security after the intention to cut remuneration and implement early retirement, and Level of education.

*Qualitative approach*

The qualitative data draws from a purposive sampling of 31 key middle and senior management informants selected based on their experience in Public Sector performance management. The responses were analysed using thematic analysis. The thematic analysis offers flexibility concerning the research questions, from personal accounts of people's experiences and understandings to broader constructs in various social contexts (Clarke and Braun, 2013).

Thematic analysis drawing on Atlas. Ti was used for analysing the qualitative data. The Atlas. Ti software made it easier to segment, categorise, and retrieve qualitative data quickly. The word cloud

identified key themes on remuneration and employee retention strategies. Table 2 provides the profile of selected respondents.

**Table 2: Selected respondents' profile**

Respondent# Male	Respondent# Female	Skills level	Years of experience in DPSA
1, 2, 3, 4,	5, 6, 7, 8	Highly skilled production	0-5
9, 10, 11, 12, 13	14, 15, 16	Senior management	6-19
17, 18, 19, 20	21, 22, 23	Highly skilled supervision	11-15
24,25,26,	27, 28	Highly skilled production	16-20
29, 30	31	Skilled	11-15

Source: Authors' iterations

### Results of the study

This section outlines the quantitative and qualitative results separately, as stipulated in the convergent parallel mixed-methods design requirements. In addition, the data from interviews and the questionnaires presented insights into answering the research questions.

#### Quantitative results

The quantitative results present the analysis of quantitative data gathered from 201 questionnaires.

#### Descriptive statistics

The five-point Likert scale, also treated as an interval scale, summarises the ratings generated using means and standard deviations (Chyung, Roberts, Swanson and Hankinson, 2017). Table 3 presents descriptive statistics on factors affecting employee performance in the DPSA.

**Table 3: Descriptive Statistics: factors affecting employee performance**

Variable	N	Min	Max	Mean	Std. Error
Remuneration in terms of salary	195	1	5	2.98	0.068
Remuneration compared to other related organisations	192	1	5	2.94	0.071
Contribution to employee medical aid	191	1	5	3.13	0.077
Contribution to employee pension	192	1	5	3.52	0.065
A remuneration package that attracts and retains employees.	189	1	5	2.84	0.076
Job security after the intention to cut remuneration and implement early retirement	190	1	5	3.08	0.080
The extent of the level of education	200	1	5	3.35	0.084
The extent of employee performance	186	1	2	1.47	0.037

Source: SPSS iterations

Table 3 reveals that 47% (Mean-1.47) of the respondents were high performers, and 53% were low performers. High performers were assigned a score of 2, and low performers were assigned a 1. When considering the position at work and job responsibilities, the respondents moderately to highly agreed that the DPSA contributes adequately towards medical aid (Mean = 3.13; S.E. = 0.077) and pension funds (Mean = 3.52; S.E. = 0.065). Furthermore, respondents are also very

concerned about job security after the state announced its intention to cut employee remuneration spending and implement early retirement (Mean = 3.08; S.E. = 0.080). Moreover, respondents agreed moderately that their work experience, position, and job responsibilities were fairly remunerated (Mean = 2.98; S.E. = 0.068) compared to other related organisations (Mean = 2.94; S.E. = 0.071). The level of education (Mean = 3.35; S.E. = 0.084). Respondents also moderately agreed that the DPSA offers remuneration packages that can attract and retain them (Mean = 2.84; S.E. = 0.076).

However, while the descriptive statistics above provide essential information about the respondents, they do not provide insight into the causality between performance and remuneration types in the DPSA. The following section analyses the binomial logistic regression model to capture such a relationship.

*Diagnostic Tests*

The logistic regression model uses maximum likelihood estimation to estimate the unknown coefficients in the model-first, the log-likelihood test to test the model’s overall fit. Secondly, the omnibus test tests the significance of individual logistic regression coefficients for each predictor. Finally, the Hosmer-Lemeshow assessed how well the data fit the model.

**Table 4: Likelihood Ratio Test**

Step	-2 Log - likelihood	Cox and Snell R Square	Nagelkerke R Square
1	236.296	0.679	0.691

Source: SPSS iterations

Table 4 presents the goodness of fit for the adopted model using the Likelihood Ratio Test. This test shows the percentage of variance within the dependent variable explained by the adopted dependent variables. Notably, the Nagelkerke R<sup>2</sup> assesses the association’s strength between the model and the dependent variable on a scale ranging from 0 to 100%. The inference is that the explanatory variables explain at least 69% of the model’s variation, confirming the model’s strength.

**Table 5: Omnibus Test**

<i>Omnibus Tests of Model Coefficients</i>				
		Chi - square	df	Sig.
Step1	Step	12.681	7	0.008
	Block	12.681	7	0.008
	Model	12.681	7	0.008

Source: SPSS Iterations

The Omnibus test assessed whether the estimated variance in the dataset is meaningfully more significant than the unexplained variance. As such, the test assesses the overall significance of the model. The findings show that the Chi-square -12.681 is statistically significant at 1%. Therefore, the adopted model confirms the goodness of fit since all p-values for step, block, and model are statistically significant at a 1% level (p = 0.008).

**Table 6: Hosmer and Lemeshow Test**

Step	Chi - square	df	Sig.
1	7.561	8	0.477

Source: Authors SPSS Iterations

The dataset is first aggregated by sequencing the estimated probabilities and formulating the separate groups. The Hosmer-Lemeshow test hypothesis is that the model is good when the p-value derived from the Hosmer-Lemeshow test is above 0.05. The p-value derived in Table 6 is equivalent to 0.477, confirming that the adopted model displays goodness of fit.

*Binomial logistic regression results*

This study used a binomial regression analysis to select the key elements of remuneration that affect employee performance. Logistic regression is a standard quantitative data analysis method used to model binary response data (Hilbe, 2011).

The results are reported based on the odds ratio. Table 7 presents binomial logistic regression findings.

**Table 7: Binomial Logistic Regression results**

Observed		Predicted		
		Performance		Percentage Correct
		Low performer	High performer	
Performance	Low performer	63	32	66.3
	High performer	37	48	56.5
Overall Percentage				61.7

Source: SPSS iterations

Table 7 illustrates that the overall model correctly classifies the outcome of the performance levels for 61.7% of the cases, compared to 52.8% in the null model, which is a marked improvement. According to Tabachnick, Fidell and Ullman (2007), logistic regression permits the prediction of a discrete outcome. For example, group membership from a set of variables may be continuous, dichotomous, discrete, or a mix. Thus, logistic regression underscores the likelihood of a given outcome for each case and those presented in Table 7. The predicted probability is either high or low for a low performer.

The results in Table 7 follow (Hosmer and Semeshow, 2000) and Tabachnick et al. (2007). For logistic regression analysis, they recommend a criterion for inclusion of a less stringent variable than the traditional 0.05. Thus, the p-value up to the range of 0.10 will be more appropriate to ensure the entry of variables with coefficients different from zero. The use of ordinal data collected through the Likert scale in measuring employee performance in logistic regression is not new. For example, Kuruppuge and Gregar (2017) analysed employee performance in enterprising family firms, while Octaviannand, Pandjaitan and Kuswanto (2017) investigated the effect of job satisfaction and motivation on employee performance in a shipping company.

**Table 8: Binomial Logistic Regression results**

Variables in the Equation	B	Wald	df	Sig.	Exp(B)
A total remuneration package that can attract and retain employees	0.43*** (0.19)	5.11	1	0.02	1.54
Remuneration in terms of salary	-0.05 <sup>NS</sup> (0.22)	0.04	1	0.83	0.95
Remuneration compared to other related organisations	-0.09 <sup>NS</sup> (0.22)	0.14	1	0.71	0.92
Contribution to employee medical aid	0.19* (0.16)	1.35	1	0.20	1.20
Contribution to employee pension	-0.32* (0.21)	2.20	1	0.13	0.73
Level of education	0.22* (0.16)	1.82	1	0.17	1.24

Job security after intention to cut remuneration and implementing early retirement	-0.27** (0.15)	2.93	1	0.08	0.76
Model $\chi^2 = 12.68$ , P = .008 N = 201					

Note  $p < .2$ \* $p < .1$ , \*\* $p < .05$ , \*\*\* $p < .001$ , NS = not significant

Source: SPSS iteration

Table 8 illustrates the impact of key remuneration structure variables on employee performance. The table also shows the odds of employees who are likely to be high performers. The binomial logistic regression results identified categories that have the most impact on promoting employee performance ( $=12.68$ ,  $p = .08$ ). The final model was statistically significant and consistent with research by Hu, Shao and Palta (2006).

The results revealed that the total remuneration package paid by the DPSA predicted employee performance. Thus, employees who feel that the DPSA generally offers a remuneration package to attract and retain them were prevalent among the high performers, in-line with the prior expectation that higher remuneration results in higher employee performance. Therefore, the study accepts  $H_1$ : higher remuneration leads to higher employee performance. The result relating to the total remuneration in Table 8 revealed that the odds ratio of being a higher performer for those who felt that DPSA offered an adequate total remuneration package is 1.54 times. At the 5% level, the beta coefficient was also statistically significant ( $= 0.43$ ,  $p = 0.02$ ) and showed a positive sign.

The results revealed that remuneration in terms of salary, remuneration compared to other related organisations, Contribution to employee pension, were insignificant in predicting employee performance. However, Contribution to employee medical aid, Level of education, and job security after the intention to cut remuneration and implement early retirement were significant in predicting employee performance.

#### Qualitative results

The qualitative results present the analysis of qualitative data gathered from 15 key informants and 201 questionnaires. These findings are presented in themes.

#### Retention strategies

The qualitative data from the interview schedule revealed that Remuneration in the DPSA comprises primarily of the basic salary, medical aid, pension, and housing allowance. The word cloud generated for remuneration and retention strategies in the DPSA revealed a range of strategies, which were salaries, administration, work environment, the job itself, qualification, employee development, and other fringe benefits such as allowances, medical aid, and bonuses.

#### Level of competency

The data revealed that skills and qualifications are critical in employee retention. The findings indicated that salaries need alignment with work experience and qualifications. DPSA must pay employees based on qualifications first and consideration for work experience; then, respondents 4, 8, and 11 concur.

#### Linking job performance with remuneration

Qualifications were vital, while job performance must be recognised when remunerating employees. There ought to be a mechanism to identify high performers and a criterion to recognise them in the workplace. It is also essential to desist from basing remuneration on seniority at workplaces alone without considering the employees' performance. There is a level of unfairness concerning equal work for equal pay. The remuneration framework must align with job evaluation; respondents 1-5, 12-13, and 27-31 concur.

#### Salary and benchmarking

The DPSA needed to offer more attractive remuneration. Remuneration package benchmarking must be considered between the DPSA and similar organisations, including the private sector.

Wage disparities existed in DPSA; hence, jobs at the same level need fair comparison in wage determination, respondent 1-4, 6-8, 24, 28, and 30 concurs.

*Other retention strategies*

Apart from the salary offerings, additional retention strategies include establishing early childhood centres, accommodation, car, telephone, electricity allowances, and meals. In addition, there is a need to introduce quarterly performance bonuses. The findings revealed that performance bonus percentages had been stagnant. Another strategy that featured prominently was that the DPSA should work towards creating a conducive work environment. Most of the respondents recommended the following: The DPSA ensures that its employees are not overworked and that there must be an adequate balance between work and private life. Enhancing the DPSA management approach is imperative. Senior managers need to attend change management and executive coaching to retain employees because these are inhibiting factors in implementing the retention strategy.

*Strategies to enhance employee performance*

Using Atlas. Ti, the strategies to enhance performance in the DPSA, included management and administration, training, work environment, career development, recognition of employees, training, and salary.

Diversity policy: The DPSA must develop and promote employees internally instead of appointing them from outside the Department; therefore, the promotional policy needs revision to accommodate the internal appointment process and concurs with all respondents with 0-5 and 6-10 years of experience.

Promoting education: Employees must be encouraged to develop themselves through educational training programmes because they perceive a direct correlation between performance and education level. Therefore, organisational learning programmes must be compulsory, and line managers must ensure that the planned training needs to close the performance gap. Respondent 6 concurred that: "People must be allowed to skill themselves, not only in their field but broadly, as it is in line with the mandate of the DPSA."

Acknowledge individual performance: According to respondents 1-10, 18-21, and 28, employee retention draws on staff morale obtained by recognising efforts and employee achievements—promotion based on favouritism or cordial relationships with supervisors. Career development: Sound organisational culture and career development must be encouraged in the workplace. Supervisors must be encouraged to review their subordinates' performance regularly and provide support where necessary. Respondents 11–15 held the view that: "The DPSA must remember that training needs change with time during the career development life cycle. Therefore, there is a need to develop employees on an ongoing basis."

Matching job performance with remuneration: Another way to enhance performance is when remuneration conforms to job responsibilities, performance, and related qualifications for the post. There is a need for a direct link between the Department's achieved targets and the remuneration rewards in a given financial year, argued respondents 13 and 23.

Eliminating corrupt practices: Fairness should be prevalent in the allocation of posts. Respondents 2-4, 7, 8 and 23 asserted that: "There is a disjuncture in the post establishments of Branch Administration with the rest of the branches. The perception it creates is that because Branch Administration was responsible for the reorganisation process, they catered for themselves and neglected the departments accountable for the core business of the DPSA." The above feelings point to the need for the DPSA to treat its employees equally and without favour.

Improving capacity: Employees perform better, when the content in their job environment and supervisors remain accountable for their staff and environment management. Employee morale aligns with trust. The human resource should enhance service delivery and be more proactive in managing employee issues. Respondent 24 argued that; "To promote productivity, my supervisor must stop micromanaging me and trust me with my duties." In addition, Respondent 24 stated that,



“staff rotation, placement structure, and technological innovation were vital to improving employee performance and retention.”

### **Discussion**

An employee's performance enhances with time. Interestingly, those who have stayed beyond 16 years in the DPSA are also associated with low performance. Mahadi et al. (2020) postulated that employees tend to lose interest in their job when they have been in one position for an extended period. As a result, they find the job routine and perform at a slower pace. Career development motivates employees to perform at work. Agung and Widnyana (2020) posited that public institutions use career development to drive employee performance. The DPSA offers opportunities for growth. Wachira et al. (2020) believe that career opportunities help people grow their careers by giving them the chance to move up the ladder and use their skills and talent in the best way possible. The DPSA can maintain the approach of providing consultation before implementing changes in the salary structure to retain high morale amongst its employees. Doellgast and Benassi (2020) agreed that employee consultation is more effective than implementing unilateral changes to the salary structure. Concerning a conducive working environment, Wachira et al. (2020) highlighted that a conducive working environment impacts employee performance as it allows employees to work optimally. Murtiningsih (2020) argued a significant relationship between a remuneration package and employee retention. The authors suggested that offering an attractive remuneration package helps to improve employees' level of satisfaction. The DPSA can cultivate an environment that nurtures good working relationships among colleagues. Mahadi et al. (2020) agreed that good employee relationships lead to high morale, motivated employees, and productivity.

The Department is utilising the available skills to enhance development. Bogacheva and Smorodinov (2020) support this notion and postulate that organisations use a skill-based pay system to address remuneration issues. The utilisation of knowledge and skills can develop both innovation and creativity. Various scholars in the reviewed literature substantiate the importance of remuneration, in particular, high total remuneration on employee performance (see (Bunyamin et al., 2020); (Bussin and Brigman, 2019; Nahar and Zayed, 2019). This shows that the DPSA should think about ways to improve total remuneration, which attracts and keeps employees, to improve performance. Employees who make a concerted effort must be rewarded. Hattangadi (2019) and Kollmann, Stöckmann, Kensbock and Peschl (2020) support this notion. They hold that employees are motivated by fairness in the workplace. Onyekwelu et al. (2020) posited that the organisation should provide a competitive remuneration package that ensures that employees will remain within the organisation even if they establish that other organisations offer higher remuneration for similar positions. Nevertheless, Gindling, Hasnain, Newhouse and Shi (2020) argued that benchmarking is the best way to improve competitiveness between the private and public sector to avoid high staff turnover. According to Zirra, Mambula and Anyatonwu (2019), health protection benefits significantly impact employee performance. Therefore, the DPSA could still consider improving the medical aid component of the total remuneration package to attract and retain its employees as an instrument to enhance performance.

The DPSA can adopt a more flexible approach toward pension contributions. Certain people may perceive contributions towards the pension fund as a burden. Furthermore, they resist sacrificing current for future consumption, which is not guaranteed. Armstrong and Taylor (2020) concurred with a pension crisis because many pension schemes are underfunded when paying employees who live longer. According to Mariana (2020), the level of education and motivation have a positive effect on employee performance. Therefore, the DPSA can consider providing opportunities for further education as an instrument to enhance performance. Job security is critical. Singh (2021) holds that although reducing the public sector wage bill is necessary to ease the financial burden, a blanket remuneration cut is not a sound approach for all government officials. Moreover, the health

care system could collapse if public-sector doctors decide to leave the country for better salaries and working conditions.

### **Conclusion**

Based on the data collected and the results of the analysis, it can be said that remuneration (wages, bonuses, and other direct and indirect rewards) has a positive effect on how well employees do their jobs. This is clear from the descriptive and regression analyses: all variables are interrelated. Remuneration is critical in human resource management in every organisation because it has a significant impact on productivity, growth, and development. In practical terms, the new knowledge gained from observing the relationship between a stagnant remuneration structure and employee performance and retention may be useful in the retention and promotion of organisational citizenship behaviour among employees. The results suggest that to have employees who are committed to their respective organisations, managers need to review existing policies and practises to lessen job stress and job uncertainties and promote positive attitudes and behaviours among employees. The DPSA should ensure that salaries are consistent across all levels. When the nature of the job changes with time and additional workload, the pay should be adjusted accordingly, and vice versa. The DPSA should link job performance with remuneration by implementing a "no work, no pay" rule. In addition, the DPSA should consider other ways to keep employees, such as subsidising electricity, meal allowances, and quarterly performance bonuses. The role of skills and experience in retaining employees is essential. Thus, employee remuneration must be based first on qualifications, and then consideration can be given to work experience. A skills audit necessitates the correct placement of employees. Job rotation should be mandatory because the process could reveal talent, and employees would likely excel in higher positions. Public-sector organisations need to create an enabling environment by promoting technology to move from paper to virtual platforms. To improve employee performance, public sector organisations must develop a diversity promotion policy. Moreover, promote a continuous learning environment for career development, which will improve productivity. Furthermore, increase training and development awareness and focus on providing adequate opportunities that conform to the employees' needs for career development. The employees should be rewarded based on the actual job performed and not seniority levels. Finally, improved management and administrative capacity to create a conducive working environment, which leads to improved productivity.

### **Recommendations for future research**

Employee performance, remuneration and retention in the DPSA had some limitations. The population of the DPSA is too small to generalise the findings to a larger population. A cross-sectional sample was employed, which may result in people overthinking their responses to items on the scales. Relatively little research has been done on the effects of a stagnant remuneration structure on employee performance and retention in South Africa, which makes it difficult to relate the findings to the South African context. Future research can use the ordinal quantitative longitudinal design to investigate the relationship between the study's variables.

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## **IMPACT OF CORRUPTION ON ECONOMIC GROWTH: AN EMPIRICAL EVIDENCE FROM NIGERIA**

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**Abstract:** *This study examines the impact of corruption on economic growth in Nigeria from 1986 to 2019. The study used the Johansen cointegration test and vector error correction tests for the data analysis. The study shows that increases in the level of corrupt practices significantly inhibit economic growth in Nigeria in the long run but are insignificant in the short run at the 5% level of significance. The study further reveals that there is a weak transmission effect of corruption on economic growth in Nigeria through household consumption, foreign direct investment, domestic investment, government spending, export and import of goods and services in Nigeria. The study recommends that in fighting corruption, Nigeria requires good and virtuous leaders who are honest with integrity, discipline and trustworthiness, the creation of employment, and the upgrading of Nigeria police among others and that the Nigerian government should advance the use of anti-corruption agencies such as the Independent Corrupt Practices Commission to properly investigate corrupt practices and to apportion appropriate sanctions, strengthen its institutions, and intensify efforts to create more agencies beside the Economic and Financial Crimes Commission and Independent Corrupt Practices Commission to address cases of corrupt practices in the economy.*

**Keywords:** *Consumption, corruption, economic growth, government expenditure, investment.*

**JEL Classification:** D73, O47

### **Introduction**

Corruption is a complex and multifaceted phenomenon with multiple causes and effects, as it takes on various forms and functions in different contexts. It ranges from the broad terms of "misuse of public power" and "moral decay" to strict legal definitions of corruption as an act of bribery involving a public servant and a transfer of tangible resources (Andvig, *et al.*, 2000). For simplification, it can be seen as the abuse of public office for private gain or the abuse of entrusted power (World Bank, 2012; Transparency International, 2013).

Corruption is a global problem, and no country of the world is totally free of its menacing grip (Chimakonam, 2011). It has been seen as a structural problem of political, economic, cultural and an individual's malaise (Akor, 2014). It has affected many countries all over the world, especially developing countries (Nageri, *et al.*, 2013). It is found not only in democratic and dictatorial societies but also in feudal, capitalist and socialist economies. Christian, Muslim, Hindu and Bhuddist cultures are equally bedeviled by corruption (Dike, 2005). Corruption exists in the public and private sectors, profit and nonprofit as well as charitable organizations. It subsists both in developing and developed nations but is predominant in developing countries; hence, it remains a symptom of a poorly functioning nation. Although corruption is a global issue, it is a recurring issue in the Nigerian discourse. It is a significant obstacle to businesses in Nigeria, as companies are very likely to encounter bribery and other corrupt practices.

Thus, corruption inhibits economic growth and affects business operations, employment and investments (Šumah, 2018). Not only does corruption affect economic development in terms of economic efficiency and growth, it also affects equitable distribution of resources across the population, increasing income inequalities with a much skewed income distribution, undermining the effectiveness of social welfare programmes, and weakening effective demand in an economy and ultimately resulting in lower levels of investment, trade flows, government effectiveness, and generally human development. This, in turn, may undermine long-term sustainable development, economic growth and equality (Transparency International, 2014). According to (Transparency International, 2014), corruption has a direct impact on economic growth and development and indirect effects on a country's economic performance by affecting many factors fueling economic growth, such as investment, taxation, composition and effectiveness of public expenditure. Also, (Ugur & Dasgupta, 2011) posit that corruption has indirect effects through transmission channels such as investment, human capital and public finance/expenditure.

Scholars have long identified a number of channels through which corruption may affect economic growth (Mauro, 1995; Tanzi, 1997; Gupta, Davoodi & Alonso-Terme, 2002; Gyimah-Brempong, 2002). They have argued that corruption distorts incentives and market forces, leading to misallocation of resources; diverts talent and resources, including human resources, toward "lucrative" rent-seeking activities; acts as an inefficient tax on business, ultimately raising production costs and reducing the profitability of investments; decreases the productivity of investments by reducing the quality of resources; and creates inefficiencies, fuelling waste of resources and undermining the efficiency of public expenditure (Transparency International, 2014).

However, the level of economic growth is the priority of every nation. It occurs when a society becomes more productive and is able to produce more goods and services without misuse and misappropriation of resources. Nigerian macroeconomic performance over the last four decades can be described as being chequered (Lawal & Ijirshar, 2015). This is because an average annual GDP per capita growth of 2.81% was recorded between 1961 and 1970 and 2.11% between 1971 and 1980. While the country has remained one of the most corrupt countries, the rate of economic growth decreased drastically to -3.12% between 1981 and 1990 and -0.16% between 1991 and 2000, depicting negative growth for the economy. The growth, however, improved significantly between 2001 and 2010, leaving an average GDP per capita growth at 7.95% and 2.5% in 2011, which suddenly

declined to -0.4% in 2019. The GDP per capita growth further declined to -4.3% in 2020 (World Bank, 2022).

The consequences of these corrupt practices on economic growth in Nigeria are assumed to be scaring and tend to deteriorate the whole economic system. Several studies have revealed negative effects of corruption on the growth of an economy (Ngutsav, 2018; Asom & Ijirshar, 2017; Ajie & Gbenga, 2015; Nageri, *et al.*, 2013; Adewale, 2011). Even Adewale (2011) posits that although corruption is a universal phenomenon, its magnitude and effects are more severe and deep-seated in Nigeria. These seem to have trapped the pace of economic growth in Nigeria, as argued by several authors (Enofe, *et al.*, 2016; Ajie & Gbenga, 2015; Nageri, *et al.*, 2013; Hodge, *et al.*, 2009; Adewale, 2011; Adenike, 2013; Kyarem, 2015). In addition, Tolu and Ogunro (2012) argued that the futile attempt by the government to fight the cankerworm stems from the fact that the government itself is greatly infected with the virus and an average Nigeria is seen as corrupt in most parts of the world.

On the other hand, other scholars have counterargued that corruption is a beneficial grease that lubricates the engine of economic growth (Aidt, 2009; Leff, 1964; Huntington, 1968; Summers, 1977; Lui, 1985). Given the above controversies with the high incidence of corrupt practices and the staggering nature of economic growth in Nigeria, the empirical verification of the economic growth effects of corruption is an exercise whose need cannot be disputed.

Moreover, despite having the world's seventh largest reserve of crude oil coupled with other resources in Nigeria, poverty and underdevelopment still ravage the country with unstable economic growth. This can be seen from all indices of development over the years. The dwindling or staggering economic growth is witnessed with numerous economic challenges, such as heightened levels of poverty, unemployment, insecurity, and high inequality gaps, which have left the country in a fragile state. Given that the empirical evidence known to the researcher has not satisfied the researcher's assessment of the relationship between corruption and economic growth. This is because, as alluded to earlier, corruption has direct and indirect effects on economic growth. The basic motivation in this study is therefore to examine the direct impact of corruption on economic growth in Nigeria and the indirect effects of corruption on economic growth through the drivers of economic growth, such as household consumption, investment (foreign direct investment and domestic investment), government spending and trade flows, as posited by Keynes. Against this backdrop, this paper examines the relationship between corruption and economic growth in Nigeria from 1986 to 2019. This period covers the post-SAP era to 2019 while excluding the recent periods recorded economic recession due to the lockdown that orchestrated by the COVID-19 pandemic.

## **Literature Review**

### *Theoretical Review*

The theories reviewed in this study include principal-agent theory, moralist theory, revisionist theory, cultural and customary activity theory, Marxian theory of corruption, beneficial grease theory, rent seeking theory, Keynes general equilibrium theory, and policy-oriented theory of corruption.



**Principal-Agent theory:** Corruption is viewed by the principal-agent theory. The theory of the principal-agent follows from the relationship between an agent and a principal. The principal is a task-giving person, and the agent is the person who receives and executes the task. The agents have to attempt to complete the task, which also involves some sacrifices. The problem that can happen is when asymmetric information is revealed to the principal and the agent. The sum is that the principal and the agent have distinct objective interests in the beginning (Becker & Stigler, 1974; Persson, Rothstein & Teorell 2013). In this study, the principal is often embodied as the public interest and the agents as people pursuing corrupt transactions. Corruption happens when, for the sake of his or her own self-interest, an agent misleads the principal's interests. This is possible due to the asymmetry of information that has emerged between the two elements.

**Revisionist Theory:** Revisionist theory suggests that corruption is inevitable in developing countries because it is part of precolonial societies' social norms, traditions and practices (Kyarem, 2015; Burns, 1960; Gordon & Scott, 1965). According to Bayley (1966), the man who is in a non-Western country is corrupt and not condemned at all by his own society; indeed, he may conform to a pattern of behavior his/her peers, family and friends since they strongly support and applaud it. Implicit in the revisionist postulations is the salient focus on both the unavoidable existence of the character of corruption at certain stages of development and the implied contributions of the practice to the process of modernization and development. This theory stressing the universality of corruption is firmly opposed by (Akinpelu, 1983; Nnoli, 1980), among many others (disregarding colonial backgrounds). They also show in these separate studies that individualistic and materialistic tendencies and corruption were not promoted by precolonial societies (Kyarem, 2015).

**Beneficial Grease Theory:** This theory is also called “virtuous bribery” by Wei (1998). Wei (1998) claimed that corruption can make positive contributions to an economy's economic and political growth. Scholars such as Merton (1958), Myrdal (1968), and Leff (1964) pioneered this theory. The premise of this theory is that corruption, especially bribes, often act as 'grease' when the wheels commence or when the bureaucratic bottlenecks in trade and industry constitute a stumbling block to efficiency. To Wei (1998) corruption can be like grease, speeding up the wheels of commerce, and if corruption does slow down economic growth, East Asia must be an exception because while the region seems corrupt, it is able to attract lots of foreign investment and generate growth. More so, Myrdal (1968) and Leff (1964) averred that corruption, especially when it serves as a deliberate weapon against administrative delay (which attracts more bribes) and thus a lubricant to a stagnant economy, can make positive contributions to the growth of an economy. Liu (1985) agreed with this point of view that corruption minimizes the average time cost of waiting for public sector services to materialize, albeit typically very late. Among many economists, the theory of grease has generated moral bitterness. To Hindricks, *et al.*, (1998), in only exceptional instances when bad regulations and financial harassment are considered exogenous, the grease theory is true. However, grease theory was strongly opposed by Kaufman (1998) on empirical grounds. In their theoretical postulations, Mauro (1995), Knack and Keefer (1996), and Rose-Ackerman (1996) all show that development is moral and ethical, and corruption is immoral and unethical and that there is no morality in immorality, so corruption as a norm cannot result in development. However, this may be seen as more inclined and dogmatic to ethical grounds than economic benefits that may be obtained from the act.

**Rent Seeking Theory:** The theory of rent seeking claims that too much government interference in economic activities generates opportunities for rent-seeking. According to Klitgaard (1988), unethical rent-seeking practices arise when a public official has a monopoly on products or services and decides who gets what, when and how much the beneficiary gets. To Obuah (2010) public officials' rent-seeking activities harm creative activities and thus slow down a country's technological growth. Shleifer and Vishny (1993) also claim that rent-seeking practices can much more seriously hamper growth than production. The concept of rent-seeking was developed in 1967 (Tullock, 1967), while Krueger (1974) coined the expression rent-seeking in 1974. The word "rent" here does not refer to a lease payment but stems instead from the division of income into profit, wage, and rent. The term's origin refers to the acquisition of control over land or other natural resources. Rent-seeking is an attempt to obtain economic rent by manipulating the social or political environment in which economic activities take place, rather than manipulating the social or political environment in which economic activities take place, that is, the portion of income paid to a production factor in excess of what is necessary to keep it employed in its current use by manipulating the social or political environment in which economic activities occur, rather than by creating new wealth. Rent-seeking means gaining uncompensated value without making any contribution to production from others.

**Keynes General Equilibrium Theory:** The theory was developed by (Keynes, 1936). According to Keynes (1936), national income is determined by government, foreign trade, individuals, businesses and trusts. Keynes categorized the different sources of income into four sectors: the household sector, business sector, government sector, and foreign sector (Nitisha, 2019). Prior to the four-sector model, the two-sector model of the economy involves households and businesses only, while the three-sector model represents household businesses and the government. On the other hand, the four-sector model contains expenditure by households, investment by businesses, spending by the government, and transactions from the foreign sector, as noted earlier. According to Keynes (1986), equilibrium employment (income) is determined by the level of aggregate demand (AD) in the economy, given the level of aggregate supply (AS). The concept of Aggregate Demand (AD), as argued by (Keynes, 1936), refers to the total demand for goods and services in an economy. AD is related to the total expenditure flow in an economy in a given period. It is symbolically expressed as:

$$Y = C + I + G + (X - M) \quad (1)$$

Y is national income, C is consumption demand by households, I is investment demand, G is government expenditure, and (X – M) is net income from abroad. This theory explains the determinants of national income or economic growth. However, the growth of an economy is often not exogenously determined but depends on other factors from which corruption is one of them. It may either grease the wheels or sand the wheels of economic growth.

Therefore, this study is anchored on the theories of corruption and the Keynesian theory of economic growth. Regarding corruption theories, corruption can either grease the wheels or sand the economic growth wheels. This may hurt the economy directly or affect the drivers of economic growth, as highlighted in the Keynesian model.

*Empirical Review*

There are several panel studies on corruption and economic growth. Using 185 countries from 2005 to 2015, Hoinaru, *et al.* (2020) explored the manner in which corruption and the shadow economy affect economic and sustainable growth. The study discovered a negative relationship between corruption and the shadow economy on the one hand and economic and sustainable growth on the other, using pooled OLS, fixed-effects and random-effects (GLS). To account for the dynamic effects of corruption, Sharma and Mitra (2019) assessed the impact of corruption control and regulation quality on growth across countries from 1996 to 2015. The study used dynamic panel data models to account for the endogeneity problem. The study found that there is more support for ‘sand the wheels’ theory at the aggregate level as well as for lower- and lower-middle-income countries.

Also, Tidiane (2019) also studied the relationship between corruption, public spending and economic growth in the countries of the Economic and Monetary Union of West Africa (WAEMU) between 2001 and 2014. The Panel Vector Auto Regressive (VAR) model was used. The study found that corruption lowers public expenditure ratios and has a negative effect on economic growth in WAEMU countries. Also, Gründler and Potrafke (2019) also examined the nexus between corruption and economic growth covering 2012 to 2018 for 175 countries. Using fixed effect and random effect regression models, the study found that the cumulative long-run effect of corruption on growth is that real per capita GDP decreased. Improving on the methodology,

Also, Saha and Sen (2019) also examined the role of political institutions in mediating the corruption–growth relationship using panel data of 100 hundred countries covering 1984 to 2016. The two-stage least square technique and dynamic panel-system-GMM methods were utilized to account for ethnic tensions and lagged variables. The study found that the corruption–growth relationship differs by the type of political institution, and the growth-enhancing effect of corruption is more likely in autocracies than in democracies. Also, Vieira (2018) also evaluated the impact of corruption on economic growth using unbalanced panel data with 2907 observations from 174 countries and 23 years between 1995 and 2017. The study estimated using bootstrapping that the impact of corruption on growth is negative and that the hypothesis “greasing the wheels” is not supported in the data. Thach, *et al.* (2017) studied the effect of corruption on economic growth by using data from 19 Asian countries from 2004 to 2015 with DGMM data processing techniques and quantile regression while evaluating the impact of corruption on Asian countries' economic growth. The study found that corruption is an obstacle to these Asian countries' economic development.

The effect of corruption on economic growth in developing countries is assessed by Fraj and Lachhab (2015) using panel data for 26 developing countries covering the period 1996 to 2013. For data analysis, fixed and random effects were employed. The study found that corruption has a detrimental effect on human capital accumulation, which threatens developing countries' economic growth. Also, Bounoua and Matallah (2014) also investigated the impact of corruption on economic growth in Algeria from 1995 to 2011. The Johansen cointegration test and vector error correction model (VECM) were employed, and the findings indicated that both ‘freedom from corruption’ and ‘control of corruption’ have long-term positive effects on enhancing economic growth in Algeria. They used control for corruption for the measure of corruption. The causal relationship between economic growth and corruption was examined by Wright and Craigwell (2013) in 42 developing countries using linear and nonlinear panel methods over the period 1998

to 2009. The study found that corruption appears to Granger cause economic growth. Also, Amin, *et al.* (2013) also examined the relationship between corruption and economic growth in Pakistan from 1985 to 2010. Using a multiple regression technique, the study found that corruption has a negative impact on per capita income in Pakistan.

Studies on corruption and economic growth from outside countries are as follows. In trying to establish the threshold, Alfada (2019) used a nonlinear approach to measure the impact of corruption on economic growth in Indonesia from 2004 to 2015 using the instrumental variable two-stage least squares (2SLS) estimator. The study found that for provinces with corruption levels below the threshold, the impact of corruption suggests a growth-deteriorating effect, and the destructive effect of corruption appears greater for provinces with corruption levels above the threshold and that most provinces are struggling with corruption problems, even if they have succeeded in retaining their corruption levels. Furthermore, the study shows that some provinces, such as Riau and West Java, have significant corruption issues and have been in a high-corruption category, while some provinces, such as Lampung and North Sulawesi, are able to reduce their levels of corruption and switch to a low-corruption group. To examine the impact of corruption on growth, Dwiputri, *et al.* (2019) used ordinary least squares (OLS) and two-stage least squares (TSLS) methods with an instrumental variable. The analysis uses panel data from countries in Asia from 2000 to 2015 and finds that corruption could reduce the share of capital in the gross domestic product (GDP) as well as decrease capital growth, especially in countries with weak institutional systems.

Contrary to other scholars, Cabaravdic and Nilsson (2017) support the idea of corruption as a greaser for economic growth. In their study of the effect of corruption on economic growth in Southern Europe, using a linear panel data regression model with robust standard errors with fixed effects, they observed that corruption has a positive effect on the real gross domestic product per capita of 14 countries in the Southern European and the Balkan regions. Similarly, Nyagwui (2017) also examined the causal relationship between corruption and economic growth in 28 developing countries using panel data with fixed effects to control for unobservable heterogeneity over the period 2002 to 2016. The study found that corruption has a positive correlation with economic growth, while the rule of law has a negative correlation with economic growth.

To empirically test whether growth leads to lower corruption, Bai, *et al.* (2013) used cross-industry heterogeneity in growth rates within Vietnam. The study used survey data collected between 2006 and 2010 from over 13,000 Vietnamese firms and a strategy of instrumental variables focused on business growth in other provinces. The study findings showed that firm growth actually causes a decrease in bribe extraction. The study suggested that as poor countries grow, corruption could subside on its own, and they demonstrated one type of positive feedback between economic growth and good institutions. This justifies the endogeneity that exists between corruption and economic growth. Again, (Bai, *et al.*, 2017) again assessed whether firm growth reduces corruption using data from over 10,000 Vietnamese firms. The study employed instrumental variables based on growth in a firm's industry in other provinces within Vietnam and in China. The study found that firm growth reduces bribes as a share of revenues.

There are some time series studies on Nigeria. For instance, using annual data between 1981 and 2015, Ngutsav (2018) investigated the effects of corruption and government spending on economic development, as well as the pass-through effect of corruption on

economic growth through government spending in Nigeria. The study made use of the vector error correction technique for the analysis. The study found that corruption has a negative impact on economic growth. Analyzing the effect of corruption on economic growth and cultural values in Nigeria from 1999 to 2015, Asom and Ijirshar (2017) situated the need for value reorientation. The study utilized ordinary least squares for the analysis and found a negative effect of corruption on the economic growth of Nigeria. Corruption and economic growth in Nigeria have been discussed by Enofe, *et al.* (2016). Basically, the study centered on the impact of corruption on Nigeria's economic growth. From the public and private sectors, a sample of 100 participants was chosen. The hypotheses were tested using nonparametric statistical methodology. The outcome shows that the Nigerian economy has been pervaded by corruption and has eaten deep into the fabric of society. This research is not typical since the methodology used was nonparametric, with elements of subjectivity in obtaining the necessary data. The study has also not examined the indirect effects of corruption on economic growth in Nigeria.

In trying to subject the effect of corruption to different regions based on the level of development, Hjertstedt and Cetina (2016) examined how corruption can have different outcomes on economic growth in Sub-Saharan Africa and Southeast Asia, where corruption has different economic outcomes. The countries in the study are Botswana, Nigeria, Kenya, South Africa, South Korea, Thailand, Vietnam and Indonesia. The study used data on corruption indexes, annual growth in GDP, and socioeconomic indicators such as political stability and Rule of Law from 1996 to 2015. The results were analyzed through principal-agent theory, and the study findings showed that corruption has no direct effect on economic growth, but socioeconomic indicators have an important role in explaining the different outcomes of corruption. This study, however, did not trace the indirect effect of corruption on economic growth in the selected region. Moreover, the sample of the countries used may suffer from fallacy of composition in terms of generalization of the findings.

Using time series data from 1960 to 2012, Shuaib, *et al.* (2016) investigate the effect of corruption on the growth of the Nigerian economy. The study used cointegration analysis to assess the time series data from Nigeria and used an error correction mechanism to evaluate the long-run relationship between the examined variables. The study found that bribery has an inverse relationship with economic growth. The study, however, examines only the direct effect of corruption on economic growth in Nigeria, neglecting the indirect effects that may be prominent. Using annual data spanning 1996 to 2012, Nageri, *et al.* (2013) investigated the effect of corruption on economic growth in Nigeria using ordinary least squares (OLS). The study found that corruption has a major adverse impact on economic growth and development.

For the period from 1996 to 2013, Ajie and Gbenga (2015) investigated the effect of corruption on economic growth in Nigeria. The outcome of the regression analysis revealed that Nigeria has a negative relationship between economic growth and the degree of corruption. Using Granger causality and the ordinary least squares technique, Nwankwo (2014) empirically investigated the effect of corruption on the growth of the Nigerian economy from 1997 to 2010. The study revealed that the level of corruption has a significant negative impact on economic growth in Nigeria. In a similar finding, Mathew, *et al.* (2013) studied corruption and economic growth in Nigeria from 1994 to 2005 using the ordinary least squares (OLS) technique. The findings showed that corruption hurts

economic growth. The crowding out effects of corruption and its destabilizing implications on the economic growth of Nigeria from 1986 to 2009 was examined by Bakare (2011) using a parsimonious error correction mechanism. The study found that there is a negative relationship between corruption and output growth in Nigeria. Also, Rano and Akanni (2009) investigated the impact of corruption on economic growth in Nigeria from 1986 to 2007 using the traditional ordinary least squares (OLS) technique. The study found that corruption exerts a negative effect on economic growth.

Another study by Adenike (2013) empirically investigated the impact of corruption on economic growth in Nigeria from 1980 to 2009 using the ordinary least squares technique. The study showed that corruption per worker exerts a negative influence on output per worker directly and indirectly on foreign private investment, expenditure on education and capital expenditure per worker. Hodge, Shankar, Rao and Duhs (2009) explicitly modeled the transmission channels through which corruption indirectly affects growth. The results suggested that corruption hinders growth through its adverse effects on investment in physical capital, human capital, and political instability.

In a closely related study, Sunkanmi and Isola (2014) examined the causality between corruption and economic growth in Nigeria from 1990 to 2010. The Johansen cointegration test, Granger causality test and ordinary least squares methods were used. Five models were identified; the first four models examined the relationship between corruption and different determinants of economic growth, while the last model examined the relationship between economic growth and corruption. The result showed that there was no substantial correlation between corruption and the determinants of economic growth (openness of the economy and globalization, government spending, foreign direct investment, gross capital formation) and that there was a positive link between corruption and economic growth. This reinforces current claims that a country's level of corruption is a relevant determinant of the level of economic growth. However, in terms of time and the methodology used, the analysis lacks sufficient coverage because OLS can lead to biased and inaccurate estimates in situations where a single equation is applied to the variables that suffer from endogeneity problems.

The opposite finding in Nigeria was drawn by Onakoya and Folorunsho (2015), who assessed the effect of corruption on Nigeria's economic growth from 1983 to 2012. Johansen cointegration and vector error correction model (VECM) tests found that Nigeria has a significant positive and long-term correlation between corruption and economic growth.

## **Methodology**

### *Empirical Model*

This study is anchored on the theories of corruption (principal-agent theory, moralist theory, revisionist theory, cultural and customary activity theory, Marxian theory of corruption, beneficial grease theory, and rent-seeking theory) and the four-sector Keynesian model. From the corruption theories, corruption can either “sand the wheels” of economic growth or “grease the wheels” of economic growth. Hence, the economic growth model can be expressed in a functional form as:

$$Y = f(CPI) \quad (2)$$

where  $Y$  is national income or economic growth and  $CPI$  is the corruption indicator. However, corruption may hurt the economy directly or affect the drivers of economic growth, as highlighted in the Keynesian model. Thus, the four-sector Keynesian model or economic growth model can be specified as follows:

$$Y = f(C, I, G, NX) \quad (3)$$

where  $Y$  is the national income,  $C$  is the consumption expenditure,  $I$  is the Investment expenditure,  $G$  is the government expenditure and  $NX$  is the net exports (Exports-Imports). As stated earlier, the broad theories of corruption states that corruption may either grease the wheels of economic growth or sand the wheels of economic growth. Capturing  $Y$  as economic growth (rate of change of RGDP),  $C$  as household consumption,  $G$  as government spending and  $EXPT$  as good and services exported while  $IMPT$  as good and services imported. Incorporating the corruption index, the mode becomes:

$$ECG = f(CPI, HHC, I, GSP, EXPT, IMPT) \quad (4)$$

ECG=Economic growth: the rate of change of real GDP, CPI= Corruption Perceptions Index, HHC= Household consumption as percent of GDP, GSP= Government spending as percent of GDP, ITOP= Trade openness, EXPT=exports of goods and services, and IMPT=imports of goods and services.

Further decomposing the investment component ( $I$ ) into domestic and foreign investment, the model can be re-stated as:

$$ECG = f(CPI, HHC, DIV, FDI, GSP, EXPT, IMPT) \quad (5)$$

where FDI= Foreign Direct Investment, percent of GDP and DIV= Domestic Capital investment as percent of GDP.

Converting the above equation to a probabilistic mathematical form, we have

$$ECG = \beta_0 + \beta_1 CPI + \beta_2 HHC + \beta_3 DIV + \beta_4 FDI + \beta_5 GSP + \beta_6 EXPT + \beta_7 IMPT + \mu_t \quad (6)$$

where:  $\beta_0$  is the intercept,  $\beta_1 - \beta_7$  are the parameters to be estimated  $U_t$  is the error term. However, corruption can influence economic growth through its impact on investment in physical capital (Romer, 1994; Mauro, 1995; Ales & Di-Tella, 1997; Mauro, 1997; Wei, 2000; Jain, 2001) and other growth determinants. Corruption also distorts investment in human capital. It weakens tax administration and can lead to tax evasion and improper tax exemptions, adds to the operating cost of government and affects the composition of government expenditure, which lowers tax revenue and diminishes the resources available for funding public provision of services, including education and health (Mauro, 1997; Gupta, Davoodi & Alonso-Terme, 2002). Thus, corruption has a potential impact on government size by encouraging increased and inefficient allocation of government resources as corrupt officials seek to maximize their rent extracting potential (Montinola & Jackman, 2002). Corrupt officials could also take an alternative route and maximize their rents by limiting the amount of public consumption expenditures. Corruption also affects trade balance in terms of rent-seeking activities created through quotas or licenses (Krueger, 1974; Southgate *et al.*, 2000). Hence, VAR models were used to estimate the relationship between corruption and economic growth in Nigeria.

*Data and Sources*

This study employed secondary data on the relevant variables. The data on economic growth (rate of change of real GDP), household consumption as a percent of GDP, foreign direct investment as a percent of GDP, domestic capital investment as a percent of GDP, government spending as a percent of GDP, trade openness, political stability, exports of goods and services as a percent of GDP and imports of goods and services as a percent of GDP were retrieved from World Bank Statistics, while data on the corruption perception index were retrieved from Transparency International. The study has a short time frame of 34 years (1986-2019).

*Method of Data Analysis*

This research used both descriptive and econometric techniques. The descriptive techniques that are used include means, median, skewness, kurtosis, and Jarque-Bera (normality test), while the econometric techniques include the Augmented Dickey Fuller (ADF) test, Johansen cointegration test, and Vector Error Correction test. To avoid spurious estimates, the Jarque-Bera test of normality is adopted in this study to determine if the data sets, estimates and residuals are well modeled by a normal distribution. The vector error correction (VEC) residuals serial correlation LM test was used to determine whether there was evidence of serial correlation at d-lag. The Vector Error Correction VEC residuals normality test was used to assess whether the residuals were normally distributed, while Vector Error Correction (VEC) residuals heteroscedasticity tests were used to examine the presence or absence of heteroscedasticity in the model.

**Results and discussion**

*Results of Unit Root Test*

It is sacrosanct to test for the existence of unit roots in the variables and establish their order of integration. The results of the Augmented Dickey-Fuller test for all the time series variables used in the estimation are presented in the Table 1.

**Table 1: Result of the ADF unit root test**

Variables	At level	First Difference	1%Critical Level	5%Critical Level	10%Critical Level	Order of Integration
ECG Prob	-2.099316 0.2463	-10.00043 0.0000*	-3.661661	-2.960411	-2.619160	I(1)
CPI Prob	-1.536997 0.5024	-5.789469 0.0000*	-3.661661	-2.960411	-2.619160	I(1)
HHC Prob	-1.631017 0.4556	-7.952016 0.0000*	-3.661661	-2.960411	-2.619160	I(1)
DIV Prob	-1.645216 0.4486	-6.334026 0.0000*	-3.661661	-2.960411	-2.619160	I(1)
FDI Prob	-1.871339 0.1435	-7.278108 0.0000*	-3.661661	-2.960411	-2.619160	I(1)
GSP Prob	-1.117194 0.6967	-5.201088 0.0002*	-3.661661	-2.960411	-2.619160	I(1)
EXPT Prob	-2.078647 0.2576	-7.563218 0.0000*	-3.661661	-2.960411	-2.619160	I(1)



IMPT	-1.431532	-7.281346	-3.661661	-2.960411	-2.619160	I(1)
Prob	0.3171	0.0000*				

Source: Extractions from E-views 10 Output

The unit root result in Table 1 reveals that all the series are stationary at first difference because the probability values of the ADF statistics at first difference are less than 0.05 critical values. This implies that although the series have a unit root problem at level, there is no evidence of a unit root problem at first difference. Therefore, the study employs the Johansen cointegration test for the determination of long-run relationships.

### Direct Impact of Corruption on Economic Growth

This study examines the long-run and short-run direct impact of corruption on economic growth in Nigeria. The results of the Johansen cointegration test and the VECM were utilized for the analysis.

The study examines whether a long-run relationship exists among the variables using the Johansen cointegration test result. Hence, the Johansen hypothesized cointegration was carried out to determine the number of cointegrating vectors among the variables included in the study. It offers two tests, viz., the trace test and the max-eigen test, with a view to identifying the number of cointegrating vectors. The results are shown in Table 2 and Table 3.

**Table 2: Result of Unrestricted Co-integration Rank Test (Trace)**

Null hypothesis	Hypothesized No of CEs	Eigen value	Trace statistic	0.05 critical value	Prob **
$r = 0$	None *	0.848369	194.3393	159.5297	0.0002
$r \leq 1$	At most 1 *	0.685428	135.8638	125.6154	0.0102
$r \leq 2$	At most 2 *	0.650074	100.0110	95.75366	0.0246
$r \leq 3$	At most 3	0.594729	67.45997	69.81889	0.0760
$r \leq 4$	At most 4	0.396299	39.46079	47.85613	0.2424
$r \leq 5$	At most 5	0.350312	23.81583	29.79707	0.2083
$r \leq 6$	At most 6	0.195785	10.44670	15.49471	0.2479
$r \leq 7$	At most 7	0.112282	3.692152	3.841466	0.0547

Source: Extractions from E-views 10 output. Trace test indicates 3 co-integrating equation(s) at the 0.05 level \*denotes rejection of the hypothesis at the 0.05 level. \*\* (Mackinnon-Haug-Michelis, 1999) p-values.

Table 2 reveals that there is cointegration among the variables. This is because the trace statistic values of 194.3393 for none, 135.8638 for at most one and 100.0110 for at most two are greater than the critical values of 159.5297, 125.6154 and 95.75366 at the 5% level of significance, respectively. Therefore, the study rejects the null hypothesis of at most two cointegrating equation(s). Thus, the Trace statistic test indicates 3 cointegrating equations at the 5% level of significance.

**Table 3: Result of Unrestricted Co-integration Rank Test (Maximum Eigen value)**

Null hypothesis	Hypothesized No of CEs	Eigen value	Trace statistic	0.05 critical value	Prob **
$r = 0$	None *	0.848369	58.47551	52.36261	0.0105
$r \leq 1$	At most 1	0.685428	35.85280	46.23142	0.4068
$r \leq 2$	At most 2	0.650074	32.55104	40.07757	0.2738

$r \leq 3$	At most 3	0.594729	27.99919	33.87687	0.2135
$r \leq 4$	At most 4	0.396299	15.64495	27.58434	0.6957
$r \leq 5$	At most 5	0.350312	13.36914	21.13162	0.4188
$r \leq 6$	At most 6	0.195785	6.754544	14.26460	0.5186
$r \leq 7$	At most 7	0.112282	3.692152	3.841466	0.0547

Source: Extractions from E-views output. Max-Eigen value test indicates 1 co-integrating equation(s) at the 0.05 level \*denotes rejection of the hypothesis at the 0.05 level. \*\* (Mackinnon-Haug-Michelis, 1999) p-values.

Additionally, the Max-Eigen value test rejects the null hypothesis if the Max-Eigen value test statistics exceed their respective critical values. Table 5 reveals that there is cointegration among the variables. This is because the eigenvalue statistic of 58.47551 is greater than the critical value of 52.36261 at the 5% level of significance. The study rejects the null hypothesis of none of the hypothesized number of cointegrating equation(s). Thus, the Max-Eigen statistic indicates 1 cointegrating equation at the 5 percent level of significance. Based on the Trace and Max-Eigen test statistics, there is a long-run relationship among the variables incorporated in the model.

### The Long-run Direct Impact of Corruption on Economic Growth

In order to determine the nature of the long run relationship by using the reversed estimates of the normalized Johansen co-integrating equation this is based on the lowest log likelihood. It is stated as:

$$\begin{aligned}
 ECG = & -3.07CPI + 35.09HHC + 37.68DIV + 3.57FDI + 42.35GSP + 31.31EXPT - 31.25IMPT \\
 & (0.632) \quad (3.808) \quad (3.977) \quad (1.395) \quad (4.366) \quad (3.555) \quad (3.724) \\
 & [4.859] \quad [9.215] \quad [9.473] \quad [2.556] \quad [9.699] \quad [8.806] \quad [8.3901]
 \end{aligned}$$

**Note:** Standard errors are in parentheses ( ) and t-statistics in brackets [ ]

The estimated coefficient of the corruption perception index is negative (-3.07). This conforms to the theoretical expectation of the “sand the wheels” view of corruption. The coefficient is statistically significant at the 5% level. This implies that a one percentage change (increase) in the corruption perception index leads to a 3.07% decrease in economic growth, and vice versa, ceteris paribus. Thus, there is a strong negative influence of perceived corruption on economic growth in Nigeria in the long run. This conforms to the theoretical relationship between corruption and economic growth. This finding is consistent with that of (Adewale, 2011; Adenike, 2013), who found a negative effect of corruption on economic growth in Nigeria in the long run.

The estimated coefficient of household consumption (HHC) is positive (35.09). It is theoretically plausible. The coefficient is also statistically significant at the 5% level of significance. This implies that a one percentage change (increase) in household consumption significantly leads to increases in economic growth in Nigeria in the long run, and vice versa, ceteris paribus. The coefficient of domestic investment (DIV) is also positive (37.68) and theoretically plausible and statistically significant at the 5% level of significance. This implies that a one percentage change (increase) in domestic investment would significantly lead to increases in economic growth, and vice versa, ceteris paribus.

Thus, domestic investment has a strong positive influence on economic growth in Nigeria in the long run.

Moreover, the estimated coefficient of foreign direct investment has a positive sign. The coefficient is also statistically significant at the 5% level of significance. This implies that a one percentage change (increase) in foreign direct investment significantly accounts for 3.57% of the changes (increase) in economic growth in Nigeria in the long run. This has conformed to the theoretical underpinnings of the relationship between foreign direct investment and economic growth in less developed countries. The estimated coefficient of government spending is positive, which conforms to the theoretical a priori expectation. It is also statistically significant at the 5% level of significance. By magnitude and sign, it implies that a one percentage change (increase) in government spending leads to an approximately 42.35% increase in economic growth in Nigeria in the long run and vice versa, ceteris paribus. This implies that changes in government spending exert a strong influence on economic growth in Nigeria in the long run. The estimated coefficient of export of goods and services is also theoretically plausible and statistically significant at the 5% level of significance. This implies that a percentage change (increase) in exports leads to 31.31% increases in economic growth in Nigeria in the long run and vice versa, ceteris paribus. Thus, there is a significant positive impact of export of goods and services on economic growth in Nigeria. Furthermore, the coefficient of import of goods and services is theoretically plausible and statistically significant at the 5% level of significance. This implies that a one percent increase in import of goods and services leads to economic growth in Nigeria to decrease by 3.72%.

### The Short-Run Direct Impact of Corruption on Economic Growth

The error correction mechanism is used to correct or eliminate the discrepancy that occurs in the short run toward the long run. The estimated coefficient of the error-correction variable gives the percentage of the discrepancy that can be eliminated in the next time period. The estimated coefficients of the explanatory variables in the error correction model measure the short-run relationship. The results are summarized in Table 4.

**Table 4: Vector Error-Correction Estimates**

Variables	Coefficient	Std. Error	t-Statistic	Prob.
CointEq1	-0.00182	0.059459	-0.03062	0.9756
D(ECG(-1))	-0.3942	0.188388	-2.09248	0.0379
D(CPI(-1))	-0.24065	0.343761	-0.70006	0.4849
D(HHC(-1))	-2.9992	3.217415	-0.93218	0.3526
D(DIV(-1))	3.10729	3.265181	0.95165	0.3426
D(FDI(-1))	0.479817	0.563557	0.851408	0.3958
D(GSP(-1))	-3.0045	3.202431	-0.93819	0.3495
D(EXPT(-1))	2.80151	3.081393	0.90917	0.3646
D(IMPT(-1))	3.155587	3.207202	0.983906	0.3266

$R^2 = 0.677321$   $\bar{R}^2 = 0.553316$  F-statistic = 2.130851

Source: Extractions from E-views 10 output

The short-run estimates in Table 4 show that the corruption perception index is not statistically significant at influencing the economic growth of Nigeria in the short run at the 5% level of significance. However, it conforms to the “sand the wheels” perspective of the effect of corruption. This implies that increases in the perceived level of corruption in Nigeria do not significantly lead to a decrease in economic growth in the short run. The results of the short-run estimates also reveal that household consumption and government spending have negative but insignificant impacts on economic growth in Nigeria in the short run. This implies that spending by households on consumption and the spending by government do not exert a positive influence on economic growth in the short run but serve as temporary withdrawers. Thus, the multiplier effect of an increase in consumption and government spending is felt in the long run only.

Similarly, the short-run estimates show that domestic investment, foreign direct investment, export of goods and services and export of goods and services have positive but insignificant impact on economic growth in the short-run at 5% level of significance. The implication is that changes in domestic investment, foreign direct investment and export of goods and services have weak influence in explaining the changes in economic growth in the short-run. The estimated coefficient of error correction term is negative and it has a low magnitude of 0.18%. Its magnitude indicates that in case of any deviation, the long run equilibrium is adjusted slowly where about 0.18% of the disequilibrium maybe removed each period (that is each year). This shows that the speed of adjustment that economic growth would converge towards long-run equilibrium in case of any initial disequilibrium at the rate of 0.18%. It is also glaring from the coefficient of multiple determinations ( $R^2$ ) has a good fit as the independent variables were found to jointly explain 67% of the movement in the dependent variable with the adjusted R-squared of 55%. The overall significance of the models is explained by the F-statistic of 3.130851 which is significant at 5% level. Finally, the coefficients of the short run dynamics show that corruption negatively affects economic growth of the Nigerian economy in the short-run.

### **The Indirect Effects of Corruption on Economic Growth**

The study found that corruption has positive influence on household consumption in Nigeria in the short-run. However, it is not statistically significant at 5% level of significance. The implication is that there is weak positive instantaneous influence of corruption on household consumption in Nigeria. The study further reveals that corruption has negative influence on domestic investment, foreign direct investment, government spending, export of and import of goods and services in the short-run. The implication is that higher perceived level of corruption discourages domestic and foreign investment, hurts government spending and reduces the level of export and import of goods and services in Nigeria. It implies that there is weak transmission or indirect effect of corruption on economic growth in Nigeria. This is consistent with the findings of Sunkanmi and Isola (2014) who found that there was no significant relationship between corruption and the economic growth determinants in Nigeria. The negative influence of corruption on foreign direct inflows is consistent with the findings of (Ade, *et al.*, 2011) who found that low level of corruption in the host countries is correlated with a large amount of FDI inflows and vice versa. More so, the result on the relationship between investment and economic

growth is consistent with the findings of Balioune-Lutz and Ndikumana (2008), and Méon and Sekkat (2005) who found that corruption discourages private investment.

**Impulse Response and Accumulated Forecast Error Variance**

This study examines the impulse response of economic growth to shocks in corruption in Nigeria, the accumulated forecast error variance of economic growth to shocks in corruption in Nigeria, impulse response of corruption to shocks in economic growth in Nigeria and the accumulated forecast error variance of corruption to shocks in economic growth in Nigeria.

**Impulse Response of Economic Growth to Shocks in Corruption and other variables in Nigeria**

The result of the impulse response of economic growth to shocks in corruption and other variables is presented in Figure 1

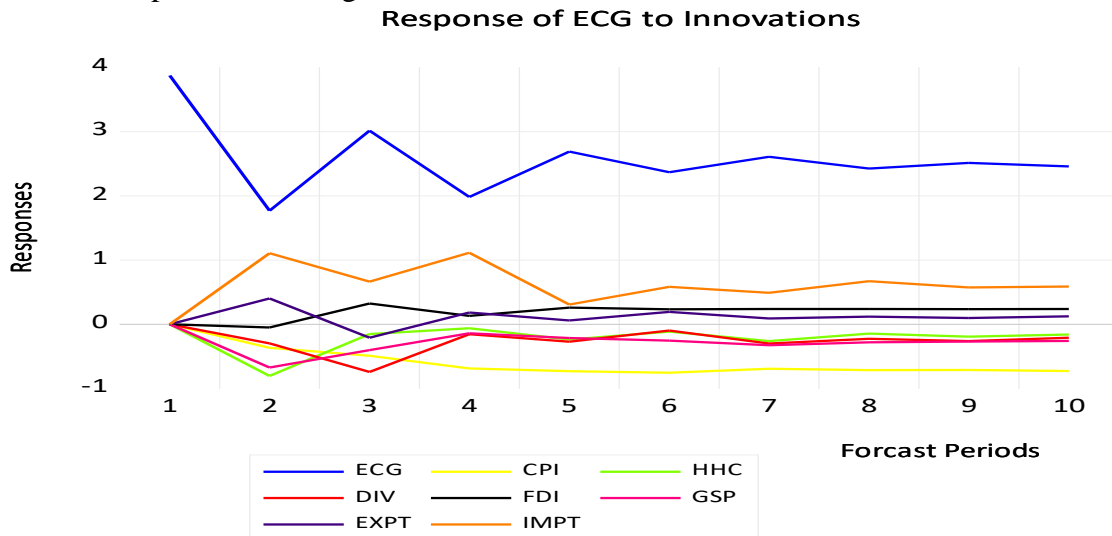


Figure 1: Response of Economic Growth to Shocks in Corruption and other Variables  
Source: E-views Output

The impulse response result reveals that economic growth would respond positively to a standard deviation own shock throughout the forecast period. The result also shows that the response of economic growth would decline in the second period and fourth period of the forecast period but recover in the third and fifth period of the forecast. The response of economic growth to own shock would recover with less fluctuations in the remaining forecast periods. The study also shows that economic growth would respond negatively to shock in corruption, domestic investment, household consumption and government spending in Nigeria. The implication is that household consumption are less productive when there is gross lack of investment turns to be counterproductive. More so, the government spending in Nigeria is marred by corruption thus would exact negative influence on economic growth in the short-run with relatively less negative effect in the long-run as compared to the short-run. However, economic growth would respond positively to shock in foreign direct investment and import of goods and services. The

implication is that economic growth would increase in an event of shock in foreign direct investment flows and import of goods and services throughout the forecast period. Shocks in export of goods and services would have initial positive influence on economic growth but turns slightly negative in the third period and reverts to positive response in the long-run. The implication is that economic growth responds negatively and permanently to shock in corruption in Nigeria.

**The Accumulated Forecast Error Variance of Economic Growth to Shocks in Corruption in Nigeria**

The result of the accumulated forecast error variance of economic growth to shocks in corruption in Nigeria is summarized and presented in Table 5.

**Table 5: Variance Decomposition of Economic Growth to Shocks in Corruption**

Period	ECG	CPI	HHC	DIV	FDI	GSP	EXPT	IMPT
Short-run (Third year)	86.39%	1.20%	2.13%	2.04%	0.34%	1.96%	0.65%	5.28%
Long-run (Tenth year)	84.71%	4.90%	1.10%	1.24%	0.57%	1.32%	0.40%	5.76%
Decision	Decreasing	Increasing	Decreasing	Decreasing	Increasing	Decreasing	Decreasing	Increasing

Source: Extractions from E-views output

Analysis of the accumulated forecast error variance decomposition covers short-run (third forecast period), and long-run (tenth forecast period). The result of the accumulated forecast error variance of economic growth to shocks in corruption in Nigeria suggests that innovation in corruption accounts for about 1.20% and 4.90% of the variations in economic growth in Nigeria in the short run and in the long run. This implies that the changes in economic growth due to shocks in corruption would increase over time. Similarly, a unitary shock in household consumption, domestic investment, government spending and export of goods and services explains about 2.13%, 2.04%, 1.96% and 0.65% of the accumulated forecast error variance of economic growth in the short-run, and 1.10%, 1.24%, 1.32% and 0.40% of the accumulated forecast error variance of economic growth in the long run respectively. This implies that variance in economic growth due to innovations in household consumption domestic investment, government spending and export of goods and services would decrease overtime. In addition, the variations in economic growth due to innovation in foreign direct investment and import of goods and services are 0.35% and 0.57% in the short-run and 5.28% and 5.76% in the long-run respectively. This implies that variance in economic growth due to innovations in government spending and import of goods and services would increase overtime. The accumulated forecast error variance of economic growth to own shock would account for 86.39% in the short-run and 84.71% in the long-run. This implies that variance in economic growth would decline over time to own shock. The result further shows that majority of the accumulated forecast error variance of economic growth would be accounted by own shocks in the short-run and long-run.

## **Conclusion and policy recommendations**

The study concludes that corruption inhibits economic growth in Nigeria. Although, it has shown effect direct and indirect effects on economic growth in the short-run, the long reign of corruption practices decay or deteriorate the level of economic growth in the country. This further discourages foreign direct inflows and domestic investment in the country. This study has therefore debunked the perspective that corruption grease the wheels of economic growth but infers that it sands the wheels of economic growth in Nigeria. Based on the study findings, the following recommendations were made:

- i. Given that corruption has negatively affected economic growth in Nigeria, the study recommends the strengthened and empowerment of the ant-corruption agencies to carry out the fight against the endemic corrupt practices in Nigeria. For instance, the Independent Corrupt Practices Commission (ICPC) should properly investigate corrupt practices and to apportion appropriate sanctions. This could positively influence the cultural reorientation and moral character thereby providing redemption for national consciousness, patriotism and manifestation of civilized acts by the citizens. This would help curtail the negative effect of corruption on economic growth in the country.
- ii. Consequent upon the above suggestion, the Nigerian government should improve in indicting public office holders that have found guilty of corrupt practices. This requires good and virtuous leaders who are honest with integrity, discipline and trustworthy, and the restructuring of Nigerian police force. This can be done by selecting credible leaders through transparent ways and holding the leaders accountable to the populace. This can also be achieved by reforming the Elections Committees that monitors campaign expenditures, developing a strong monitoring mechanism, and imposing stronger penalties. More so, reforming the selection process for the heads of the supreme judiciary positions by establishing an independent body of judges, ensuring total independence of the judiciary and excluding the intervention of the Executive Power from any step of this process. The Nation's effort at curbing corruption may, at best, remain an illusion if the selection process is not improved. Hence, effective fight against corruption in Nigeria requires a good and exemplary leadership with a strong will to fight corruption and with such high level of ethical and moral standards to be able to motivate and influence the citizens to voluntarily follow in the fight against corruption.
- iii. The Nigerian government need to strengthen her institutions. Institutions are at the heart of every nation. Creating institutions that can sustain the economy. This should cut across all spheres. More so, the Nigerian government should also make laws that govern the activities within and outside to close avenues to avert the outflow of looted funds. This can be done by collaborations with the foreign partners to restrict the number of accounts outside the country.
- iv. The study also recommends that the Nigerian government should intensify efforts to create more agencies beside EFCC and ICPC to address cases of corrupt practices in the economy, encourage leaders that display transparency, honesty, probity, accountability, purposefulness and commitment to good ideals of the society before followers will be convinced of the ingenuity of such crusade, ensure corruption as

- a theme needs to be discourse on debate by government representatives at federal, State and local levels. This will create the awareness that corrupt practices are against norms, culture and social value of the society. Putting all these together will dissuade corruption and boost economic growth to increase influx of foreign investors.
- v. More so, even though there is weak direct and indirect effect of corruption on economic growth, the increase in the level of domestic and foreign direct investment may reduce the high level of corruption in Nigeria. This is attributed to the fact that there is often times improvement in welfare when investment increase. Hence, reduces the tendencies of corrupt practices among people.
  - vi. The study also suggests modalities for western countries to close rooms that accommodate stolen funds from developing countries. In most instances, funds kept in these countries are concealed under codes and not names which make them untraceable in the event of the depositors' death.
  - vii. There should be re-orientation process in education system in Nigeria that would lead to redemption or retrieval and salvaging or restoring of the country's national character and image. This would cause mindset reorientation from the educational system in Nigeria. The educational sector should instill in the youth, the standard and acceptable morals. Therefore, re-structuring of the education process itself would ensure character development and transformation, skill acquisition and even entrepreneurship along with job creation.
  - viii. The three arms of government in Nigeria need to have unity of purpose in the fight against corruption. There should be a healthy conspiracy by the executive, legislature and the judiciary in tackling corruption head on. This can be done through collaborative efforts.
  - ix. Parents should endeavour to fulfill their parental roles, goals, values and manners that would influence the children's moral and social behaviour positively. These can be done through teaching and training of their children/wards and adequate monitoring and guidance of their behavioural patterns at home and developing in them, self-control in absence of external authority.

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## **FACTORS INFLUENCING THE CHOICE OF PUBLIC-PRIVATE PARTNERSHIP (PPP) FOR THE PROVISION OF SOCIAL SERVICES**

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**Abstract:** *The aim of this paper is to investigate some elements that might influence the choice of PPP as a managerial form for the provision of social services at the local government level, given the contribution of this type of services to social sustainability. To this end, we apply the GLS method to a sample consisting of all 116 Italian provincial capitals over a three years period (no. 2,088 observations). The analysis highlights that: 1) the financial commitment of the municipality is not correlated with the use of PPPs; 2) the right-wing and 5 Star Movement political orientation of local government shows a negative correlation with the use of PPPs; 3) a larger population to be assisted does not lead to a higher use of PPPs.*

*Finally, we suggest some desirable lines of future research some thoughts in support of public management.*

**Keywords:** *public-private partnership; local government; social services; public management*

### **Introduction**

Sustainable development represents a topic toward which the institutional and academic world has paid increasing attention in recent years (Starik M., Kanashiro P., 2013; Zeemering E.S., 2018; Popović B. et al., 2019). The evolutionary path aimed at the implementation of sustainability at the global level was initiated by the first real initiative promoted at the international level in 1987, when within the report *Our Common Future* (also known as the Brundtland Report) of the World Commission on Environment and Development was recited the primitive definition of sustainable development, to be understood as «development that meets the needs of the present without compromising the ability of future generations to meet their own needs» (WCED, 1987). Sustainability is generally conceived as a concept that can be declined in three dimensions: economic, environmental and social (Lozano, 2008; Purvis et al., 2018).

It is interesting to consider that, over the past century, aspects related to economic sustainability have been explored in the literature in management studies focusing on economic equilibrium and efficiency, and relating to the corporate sphere. Elements of social sustainability have been investigated with reference to welfare models and issues of

wealth transfer and redistribution, in a public administration context. Factors related to environmental sustainability have been investigated more recently as a result of the global phenomenon of pollution. These factors, however, have been mainly addressed in a separately parallel manner and, therefore, with different theoretical frameworks of reference. On the contrary, the concept of sustainability implies a focus on the interdependence between the three dimensions that traditionally constitute it and, therefore, greater complexity.

In this article, special attention is given to the social dimension of sustainability, because of its topicality, relevance and taking into account that it can be considered a precondition for the development of the other two spheres of sustainability (Boyer et al., 2016). Social sustainability expresses an intangible aspect of development (Tahvilzadeh et al., 2017). It concerns the pursuit of human well-being, the satisfaction of human needs (Rogers et al., 2012) and is configurable as a difficult and complex concept (Missimer, 2013). This is a crucial dimension of sustainable development, since efforts to achieve sustainability depend on the adoption of socially oriented practices based on concepts such as equity, security and production of value in a socially responsible manner (Eizenberg, Jabareen, 2017).

In spite of this, it should be emphasized that social sustainability is generally regarded as the least developed dimension of sustainability (Littig, Griessler, 2005; Cuthill, 2010; Dempsey et al., 2011) and more public management studies on it are needed because the availability of information in this sphere of sustainability is very limited (Missimer et al., 2017). The need to achieve social goals has led the public sector to consider public-private engagement models (Whyle, Olivier, 2016), among which a prominent position is held by the managerial tool represented by public-private partnerships (PPPs) that can play a decisive role in terms of achieving sustainability goals (Vorotnikov, Tarasov, 2019; Wang, Ma, 2021; Cheng et al, 2021) and, in particular, in contributing to the achievement of socially relevant sustainability goals (Kombo, 2014; Xu et al. 2015). Indeed, PPPs can be an effective tool through which the public actor has the opportunity to put in place the necessary investments to promote the social development of communities (Queiroza, Motta, 2012). The implementation of PPPs has the potential, among others, to promote socially sustainable management of natural resources (Bjärstig, 2017), alleviate poverty (Deladem et al., 2021), ensure access to affordable, reliable, modern and sustainable energy for all (Sudirman, Rifai, 2021), as well as provide inclusive tourism services and, thus, raise the accessibility profile of tourism destinations (Sonuç, Oral, 2017).

Furthermore, PPPs can ensure adequate levels of social performance of water utilities (Harutyunyan, 2015) and health services (Ferreira, Marques, 2021). Potentials of PPPs that, moreover, are confirmed in the 17th Sustainable Development Goal of the UN 2030 Agenda, which aims to strengthen the means of implementation and renew the global partnership for sustainable development (UN, 2015). In light of the value that the partnership formula can assume in the social sphere and given the role that local governments can play in the pursuit of social sustainability (Aderonmu, 2010; Boese, Phillips, 2017; Georgakopoulou, Delitheou, 2020; Carnemolla et al. 2021), the aim of this contribution is to investigate some elements that could influence the use of PPPs, as a managerial form for the provision of social services at the local government level.

The contribution is structured as follows. The next section contains the literature review from which the research questions arise. The third section is dedicated to the description

of the methodology applied. The fourth section contains a discussion of the results achieved and, finally, in the fifth section some concluding remarks, as well as the limitations of the work and possible future lines of research, are developed.

### **PPP and social sustainability: literature review and research questions**

The topic of collaboration between government and private operators has been the subject of increasing attention in the literature (Cafferata, 1993; Rondo Broveto, 1996; Metcalfe, 2003), becoming one of the topics on which the evolution in content of the discipline of public management has been based (Borgonovi, 2018). Since the 1990s, PPPs have become a key element of public policies worldwide, as they have the potential to bring not only cost benefits in the implementation of policy programmes, but also in terms of developing socially inclusive communities (Osborne, 2000). The literature on the subject of PPPs lacks a consensus of opinion on what PPPs represent from a definitional point of view (Linder, 1999; Bloomfield, 2006; Cappellaro et al., 2009; Khanom, 2010). Wettenhall (2003), in this regard, emphasises the need to develop a classification system for partnership agreements, since there are many different forms of public-private mixes that are more or less appropriately brought under the term partnership.

Hodge and Greve (2007), in highlighting the ambiguity that accompanies the notion of partnership, point out how there are essentially two currents of thought regarding the interpretation of the PPP phenomenon. In fact, according to the aforementioned authors, the literature on the subject is divided between those who maintain that PPPs are a particular instrument of governance, replacing the traditional methods of entrusting public services, and those who classify PPPs as a new expression of the language of public management behind which there would be references to contracting out and privatisation processes. Weihe (2005), in addressing the nebulous concept of partnership, emphasises the impossibility of identifying an all-encompassing and universal definition of partnership, capable of encompassing the different meanings attributed to this term over time. Also Khanom (2010), recognizing PPPs as a managerial instrument of the New Public Management paradigm, distinguishes PPPs as an inter-organizational agreement between different institutions (in which the partnership scheme is used as a governance instrument), PPPs as a means of defining financial agreements, and PPPs as a development strategy, thus confirming the existence of different approaches to the subject of PPPs in the literature with their different definitions.

This position is also supported by Kivleniece and Quelin (2012) who, in a contribution aimed at providing a framework on the mechanisms of value creation and distribution within public-private relationships, confirm the lack of conceptual clarity that accompanies PPPs, coming to embrace a broad notion that defines them as long-term collaborative relationships between one or more private actors and public entities, combining public sector management or supervision with the resources and expertise of a private partner for the direct provision of a public good or service. Ultimately, PPPs can be qualified as complex and durable forms of cooperation between the public and private sectors based on the sharing of risks, costs, benefits, resources, responsibilities and aimed at providing public services (Wang et al., 2018).

The literature is also devoting increasing attention to PPPs on the topic of sustainable development, investigating the role of PPPs in implementing sustainability from different perspectives. One reason for this trend probably lies in the fact that, since sustainability requires the joint treatment of environmental, social and economic aspects, such complexity necessitates the involvement of several actors with different and complementary competences and objectives. With particular reference to social sustainability (the subject of this paper), PPPs can represent the instrument through which public and private resources are combined to achieve social objectives (Skelcher, 2005). They constitute a viable strategy through which the private sector's own ability to access capital can effectively be functionalized toward the pursuit of socially relevant objectives, thus contributing not only to economic progress but also to the improvement of living standards and the reduction of unemployment and poverty (Iftikhar et al., 2012). PPPs related to social sustainability have been analyzed in the academic literature with reference to different fields of intervention.

Firstly, the use of the partnership model in health care should be noted.

Ciccone (2010) argues that PPPs can be considered as an option for achieving results in social challenges such as infectious diseases. This is because of the expertise and funding provided by the collaborating parties. For this potential to become a reality, however, a balance must be struck between the different internal cultures that connote private sector companies and public institutions. Moreover, while PPPs can mobilize funding for global health, their deployment in health governance also raises outstanding issues, such as that of accountability. The ageing of the population constitutes an additional social issue that healthcare systems find difficult to address in light of existing budgetary constraints. In this sense, as stated by Moro Visconti et al. (2019) one potential avenue through which this issue can be addressed is the use of technology. However, while the public actor plays a crucial function in the protection of a primary public good such as health, it may not possess the skills that are indispensable for the management of technology-smart investments: in this perspective, a central role can be played by PPPs.

Contextually, it should be noted that the ability of PPP-managed institutions to improve the quality and sustainability of health services depends, among other things, on the employment of qualified human resources, given that the managerial instrument of partnership, in itself, may not compensate for the effects resulting from inadequate recruitment and retention of staff or poor capacity building (Baig et al., 2014).

According to Ferreira and Marques (2021), PPP hospitals can provide health care services with social performance levels at least equal to those of typical public hospitals. In this regard, as pointed out in a study by Wang et al. (2022), hospital PPP projects have the advantage of promoting innovation but, at the same time, they present a tension between economic benefits to which the private sector tends and pursuit of the public interest to which the public sector, by definition, tends. This circumstance is likely to undermine social sustainability, which is why a balance should be sought between opposing interests. As also to achieve social sustainability in health care, it is necessary to strengthen the supervision of PPP projects, create communication channels between partners and improve stakeholder participation.

Another area of intervention where PPPs can realize their potential in terms of supporting social sustainability is the construction sector.



In this regard, the contribution of Xu et al. (2015) is relevant as, in developing a model for determining the financing structure of PPP-based young-graduate apartments, they highlight the suitability of the partnership formula to address social concerns such as the need to provide public rental housing for young graduates. Similarly, in a context of a growing ageing population, the partnership model could be fruitfully employed to meet the demand of elderly housing (Ng et al., 2020). More generally, the issue of increased demand for social housing, which is exacerbated in times of economic crisis, faces a context of drastically reduced public investment in housing. It follows that the role that private and non-profit organisations can play in increasing the supply of social housing is promising and housing policies that emphasise the role of PPPs in housing provision are to be pursued (Propersi et al., 2012).

The transport sector is also an area within which PPPs are becoming increasingly important in terms of improving the sustainability of society. In this regard, Yuan et al. (2018) argue that in order to reduce social risks from the perspective of different stakeholders in transport PPP projects, a people-centred PPP approach should be used, prioritising interactions between different stakeholders. From the consideration of the role of stakeholders also moves the contribution of Rohman et al. (2017), where the authors argue that measuring the success of PPP projects in this sector based only on the economic and environmental dimensions cannot be considered acceptable from the perspective of the community, as the end user of PPPs: if PPP projects provide social benefits to the community (such as improved quality of life, access to public facilities, smooth traffic), the problem of stakeholder opposition can be minimized by increasing community support for PPP project development and ultimately promoting the success of the PPP project in both the short and long term.

Indeed, it can be noted that achieving social legitimacy in such PPP programmes requires overcoming problems such as low social involvement and distrust between impacted and responsible stakeholders, by strengthening the relational governance through the inclusion of not only responsible stakeholders but also impacted stakeholders in the governance scheme of PPP programmes (Castelblanco et al., 2022).

There is also evidence demonstrating the ability of the PPP approach to improve the accessibility of water services (Kombo et al., 2014). As also must be highlighted how, given the aptitude of public-private cooperations to increase the accessibility profile of tourism destinations (Machado, 2020), the creation of PPPs oriented to the delivery of effectively inclusive tourism services is to be linked to the existence of a climate of trust between partners (which can be facilitated by collaborations among entities with similar values) and proper management of their different competencies (De Matteis et al., 2021). From what has been said so far and considering the functionality of PPPs in terms of contributing to social sustainability, it can be observed that their use is linked to the impossibility of the public sector to guarantee/improve essential social programs. This impossibility has led public decision-makers to explore different options for financing and delivering such programs (Bloom et al., 2000), including those involving private entities. In fact, policy makers have had to deal not only with concerns about the quality of services but, more importantly, with an increasing shortage of funds available for financing social services. This has resulted in the deterioration of social infrastructure and the search for other service delivery models than the purely public model (Mitchell, 2000): one of the

options available is collaboration with the private sector, in the managerial form of the PPPs (Skelcher, 2005; Wang et al., 2018).

In this regard, some authors have investigated the correlation between the financial resources used for the provision of some public services and the managerial form delivery of the same services (Loikkanen, Susiluoto, 2005; Cuadrado-Ballesteros et al., 2013; Pérez-López et al., 2015; Andrews, Entwistle, 2015). The delivery model represented by PPPs, in this sense, may prove to be financially appropriate in the delivery of various essential social services (Alam, Rashed, 2010; Zavyalova, Tkachenko, 2018), provided that there is good PPP contract management capacity, adequate performance monitoring and, more generally, effective supervision of the partnership (Alonso, Andrews, 2022).

From the above, the first research question arise.

*RQ1: “Is there a relationship between the choice of PPPs for the provision of public social services and the financial commitment of the local governments?”*

Likewise, the way in which public services are provided could potentially also be influenced by political and ideological factors (Picazo-Tadeo et al., 2012).

In fact, although there is no shortage of contributions pointing to a lack of significant correlation between contracting out and ideology (Bel, Fageda, 2007, 2010; Miralles, 2009; González-Gómez, Guardiola, 2009), there are studies that have shown how political and ideological motivations are likely to influence the contracting out of public services, as a form of privatisation that is increasingly accepted as an approach to the provision of public services (Morgan, Hirlinger, 1991; Kodrzycki, 1994; Fernandez et al., 2008; Bel, Fageda, 2009, 2017), especially when it comes to services that qualify as social services (Bel, Fageda, 2017). With regard to this particular type of public services, Petersen et al. (2015) state that while conservative ideology has no influence on contracting out at the aggregate municipal level, it has an important impact on contracting out of social services, given that local governments with conservative majorities are found to contract out such services significantly more than those with social democratic majorities: the authors go so far as to believe that the “social services [...] have become the current ideological battlefield of privatization”. Of the same opinion are Plata-Díaz et al. (2019) who, with reference to larger municipalities, observe a greater likelihood of local social services being contracted out by a conservative government than by a left-wing one. This is in line with more general assumption that right-wing governments are more likely to use private sector, including through the use of PPPs (Comendeiro-Maaløe et al., 2019), to provide public services than left-wing governments that instead tend to preserve public control (Elinder, Jordahls, 2013; Zafra-Gómez et al., 2016; Higuera-Molina et al., 2022).

From the above follows the second research question that this article seeks to answer.

*RQ2: “Is there a relationship between the choice of PPPs for the provision of public social services and the political orientation of local government?”*

Finally, another factor worthy of consideration is that related to the size and growth of a local authority's population, since the greater the pool of users to be satisfied, the greater the demand for public services and, consequently, the higher the level of local services and infrastructure that a local authority is called upon to guarantee (Narbón-Perpiñá, De Witte,

2018). In fact, the growth of the population to be served are relevant aspects to be taken into account in the provision of social services (Mitchell, 2000). It follows that it might be an interesting element to understand whether the extent of people assisted with social services influences the choice on the use of PPPs for the delivery of said services. This gives rise to the third research question of this contribution.

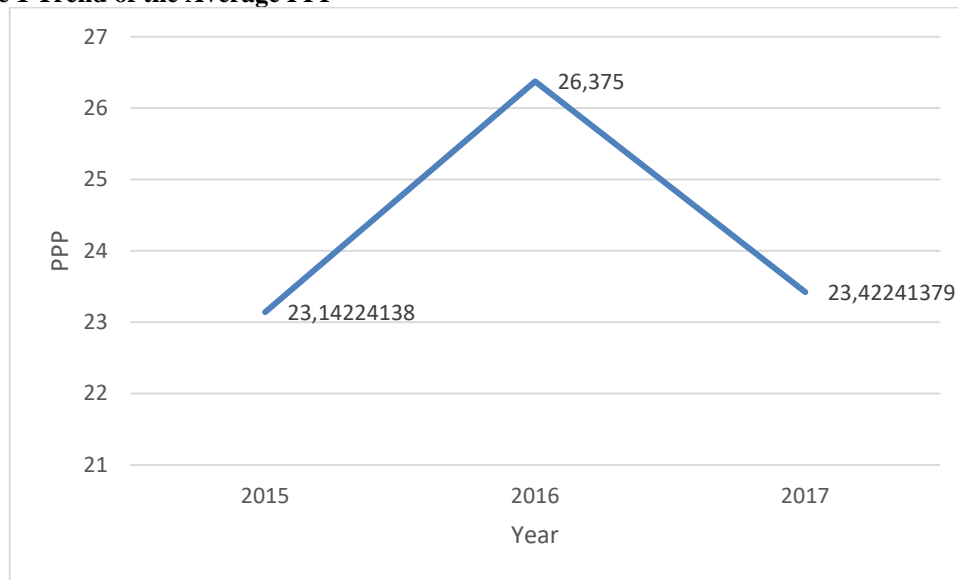
*RQ3: “Is there a relationship between the choice of PPPs for public social service provision and the size of the assisted population at the local government level?”.*

**Variables and statistical analysis**

To develop the empirical analysis, we consider as the dependent variable - for each of the 116 Italian provincial capitals - the percentage indicating the use of PPPs for the provision of public social services at the local government level (the source of this percentage is the State general accounting Department). The analysis has a three-year time horizon (2015-2017) because of data availability. Following, we show some statistics related to the above mentioned dependent variable (PPP).

Firstly, we calculate the mean of the PPP per each year considered, obtaining the following graphic.

**Graphic 1 Trend of the Average PPP**



Secondly, in the following table we add some other significant statistics of the dependent variable.

**Table 1 Statistics**

Year	Mean	Median	Standard Deviation
2015	23,1422414	6	30,6312434
2016	26,375	9,5	32,0436438
2017	23,4224138	5	30,624699

The results highlight a variability higher than the average over the years. In fact, this is demonstrated by the high values of the standard deviation.

The following table summarises the independent variables - representing possible influencing factors on the use of PPPs, as derived from the literature review - and their respective sources.

**Table 2 Independent variables definition**

Code	Variable	Source
tw	Total number of women in municipal government	ISTAT
dens	Population density	ISTAT
nap	Number of assisted persons	ISTAT
se	Social expenditure in local authorities	ISTAT
ni	Number of immigrants	ISTAT
CL	Center Left	Ministry of the Interior
CR	Center Right	Ministry of the Interior
CI	Civic List	Ministry of the Interior
5SM	Five Star Movements	Ministry of the Interior

The data in the following table show that in all cases there is no correlation between the independent variables (in fact, almost all correlation values are very low).

**Table 3 Correlation matrix**

	CL	CR	5SM	tw	dens	nap	se	ni
CL	1.0000							
CR	-0.7619	1.0000						
5SM	-0.3315	-0.1602	1.0000					
tw	0.0376	-0.2068	0.2242	1.0000				
dens	0.2130	-0.1727	-0.1835	0.0400	1.0000			
nap	0.0834	-0.1283	-0.1144	0.0274	0.6130	1.0000		
se	-0.0492	-0.0655	0.1465	0.0814	0.0280	0.1357	1.0000	
ni	0.0789	-0.0587	-0.1016	-0.0835	0.4883	0.6831	0.0958	1.0000

Since the correlation matrix shows that the variables are not correlated, we expect that there will be no problems of multicollinearity. To verify this, we use the condition index (table 3)

**Table 4 Collinearity Diagnostics**

Dimension	Condition Index
1	1.00
2	1.8426
3	2.1737
4	2.2966
5	3.7434
6	4.1350
7	4.7915
8	7.2064
9	17.4097

As it is easy to see in the table the condition indexes are small enough and, in any case, less than 30 and this means that we have a low degree of collinearity and therefore we can conclude that our variables are not collinear.

With this sample, we create a balanced data panel (for local government  $i$  ( $i=1, \dots, n$ ) at the time  $t$  ( $t=2015, \dots, 2017$ )), which we use to estimate our models (Hsiao, 2003).

### **Model, analysis and results**

The focus of this research is to analyse the public-private partnership. Therefore, we developed a model, we consider the dependent variable “PPP” (for local district  $i$  ( $i=1, \dots, n$ ) at the time  $t$  ( $t=2015, \dots, 2017$ )) and all previous variables like independent variables (for local district  $i$  at the time  $t$ ). We have:

$$PPP_{it} = k + tw_{it} + dens_{it} + cl_{it} + cr_{it} + ci_{it} + ms_{it} + npa_{it} + se_{it} + ni_{it} + u_{it}$$

The methodology that we use to estimate the previous panel is the GLS (General Least Square) method. First of all, we can use this method because we haven't a lagged dependent variable. Then, our units of observation, local districts, differ in many significant ways (e.g. the size) and this is a common source of heteroscedasticity, which is a strong assumption that may not hold in applied problems like the one we are dealing with where the units of observation have an important spatial component. Some relatively recent contributions, such as Anselin and Lozano-Gracia (2008) or Baltagi et al. (2008), are typical examples of empirical applications that require the use of spatial heteroscedasticity and autocorrelation consistent estimators. Therefore, we can use to estimate the OLS (Ordinary Least Squares) method (Baulager-Coll et al, 2016). But we choose the GLS method because we have, also, random effect over the individuals (local districts). For this reason, we assume that the heterogeneity is distributed as a random variable with mean zero and variance  $\sigma^2$ . This last hypothesis takes, obviously, effect on the variance-covariance matrix of the error term that will not be diagonal. Therefore, to obtain estimate correct and efficient we must use the OLS method transformed, the GLS method, in which make a “almost” differentiation that is we subtract to each observation to its mean over time. On the other hand, as the Aitken's Theorem tells us, the use of the method of the minimum generalized squares (GLS), makes the estimators BLUE (Best Linear Unbiased Estimator) even in the presence of heteroscedasticity and/or autocorrelation of errors.

In our model we insert the temporal dummy variables ( $\tau$ ), through which we can capture the cyclical variations of the period and the geographic control variables ( $nw$ = North-West,  $ne$ =North-East,  $c$  = Central,  $si$ = South and Island)) to verify the consistency of the geographic distribution of the sample elements Then the models become:

$$PPP_{it} = \beta_0 + \tau_t + nw_i + ne_i + c_i + si_i + \beta_1 cl_{it} + \beta_2 cr_{it} + \beta_3 ci_{it} + \beta_4 ms_{it} + \beta_5 tw_{it} + \beta_6 dens_{it} + \beta_7 npa_{it} + \beta_8 se_{it} + \beta_9 ni_{it} + u_{it}$$

At this point we can proceed with the estimation of the model and we use the econometric program STATA. Obtain the following table:

**Table 5 Estimation**

Variable	Model
Const	47.72851*** (11.37686)
tau2015	-2.39974 (4.202171)
tau2016	2.384497 (4.004846)
tau2017	
cl	-14.29405 (8.774674)
cr	-16.0666* (9.323965)
ci	
5SM	-26.16329** (10.89596)
NW	0.2103442 (5.956235)
NE	0.8866382 (5.731356)
C	2.723767 (5.759877)
SI	-8.151571 (5.989751)
tw	-8.852504 (17.51671)
dens	-0.0010338 (0.0017111)
nap	-0.0002571* (0.0001532)
se	-0.0157768 (0.0135146)
ni	0.0099232 (0.0076426)

Notes: standard errors (in bracket). \*\*\* denotes a level of significance at 1%, \*\* denotes a level of significance at 5%, \* denotes a level of significance at 10%.

## Discussion

The analysis carried out led to the results presented in the previous section, which are discussed below in relation to each of the three research questions guiding this research work. With reference to the first research question, i.e. whether there is a relationship between the choice of PPPs for the supply of public social services and the financial commitment of the local governments, the results show that financial commitment is not correlated with the use of PPPs.

This result does not confirm what has emerged from the recalled literature. In fact, from the analysis of the latter, it was possible to deduce that the greater the need for financial commitment to the provision of public services and, in particular, public social services, the greater the use of PPPs is expected to be in the provision of these services (among others, Bloom et al., 2000; Mitchell, 2000; Zavyalova, Tkachenko, 2018).

This result, therefore, shows that in our case the amount of financial resources required for the provision of social services is not associated with a higher recourse to collaborations with the private sector and thus to the managerial form of PPPs. Our result can be considered surprising. Indeed, one would also expect a financial implication in the use of PPPs. Consequently, rather than a lack of correlation between the financial resources employed and the use of PPPs, one would expect:

either a positive correlation, in the event that the use of partnership with private entities by the local authority allows the latter to recover efficiency;

or a negative correlation, considering the possibility of coordination expenses of different entities, linked, for example, to bodies in charge of coordination or information sharing tools.

In relation to the second research question that focused on the existence or otherwise of a relationship between the choice of PPPs for the provision of public social services and the political orientation of local government, our results show that the right-wing political orientation of local government shows a negative correlation with the use of PPPs. This means that, based on the analysis, the more a government is politically represented by right-wingers, the less it resorts to PPPs for the provision of social services. A result that proves to be in line with what emerged from the analysed literature. In fact, a fairly shared consideration in the literature is that according to which the presence of conservative majorities in the government of public administrations, including local ones, entails a greater likelihood of recourse to pure contracting out for the provision of public services and, in particular, of social public services (among others, Elinder, Jordahls, 2013; Petersen et al, 2015; Plata-Díaz et al., 2019); unlike left-wing parties that tend to maintain public control of such services (Zafra-Gómez et al., 2016; Higuera-Molina et al., 2022).

More controversial, however, is the interpretation of a further result achieved, namely the presence of a negative correlation also between local governments led by the 5 Star Movement and the use of the partnership formula in the delivery of social services.

In fact, given that the 5 Star Movement cannot be hinged in traditional party schemes, it can be said that it represents a hybrid in the Italian political landscape, as it gathered within itself actors from different political and cultural backgrounds who no longer recognized themselves in the canonical left-right political opposition.

It follows that the explanation for the result achieved and mentioned above is more articulated than in the cases of right-wing or left-wing government majorities. For example, this could mean, on the one hand, that in the area of social policies and in the choice of the model for the delivery of social services, the 5 Star Movement tends towards the total outsourcing of these services, as is generally the case in governments with right-wing majorities. On the other hand, this political movement might lean towards keeping the public management of social services completely public, as is generally the case in governments led by left-wing parties.

It is not possible here to make further considerations in this regard that would allow us to understand which mode of delivery the 5 Star Movement-led administrations tend toward, given that the data referenced in this contribution concern the managerial form of social service delivery of PPPs and not other alternative models of delivery of the aforementioned services. However, what emerges from the research is that municipalities governed by the 5 Star Movement are not oriented towards the use of PPPs in the provision of social services.

Finally, the last third research question concerns the existence of a relationship between the choice of PPPs for the provision of public social services and the size of the population served at the local government level. In this regard, our results indicate that the presence of a larger population to be assisted and served through the implementation of social services does not lead to a greater use of PPPs. Contrary to the literature considered, the analysis carried out indicates that the greater the number of people served, the less recourse to PPPs. Indeed, some authors link the greater size of the population to be assisted to the need to guarantee a greater level of public services (Narbón-Perpiñá, De Witte, 2018) and, consequently, to the need to seek alternative ways of financing social services (Mitchell, 2000) such as PPPs.

Considering the particular type of local public services investigated (social), this result could also depend on: 1) the local authority's desire to offer greater guarantees of social equity through direct management of these services; or 2) the choice of local authorities to entrust services entirely to the private sector, presuming their greater efficiency.

## **Conclusion**

Academic research on sustainability, over time, has mainly focused on environmental and economic issues (Colantonio, 2007). Therefore, social sustainability has emerged as the least investigated sphere of sustainability (Littig, Griessler, 2005; Cuthill, 2010; Dempsey et al., 2011). This has resulted in the need to pay more attention to the practical and operational aspects of implementing social sustainability (Woodcraft, 2012), by which is meant process aimed at promoting and developing conditions of well-being to meet the needs of current and future generations (Dempsey et al., 2011; Woodcraft, 2012). The 17th Sustainable Development Goal of the United Nations 2030 Agenda has given new attention to the role assumed by PPPs in implementing sustainability (Thadani, 2014; Gharaee, 2019). Specifically, PPPs can play an important role in the effective achievement of socially relevant goals (Skelcher, 2005; Kombo, 2014; Xu et al. 2015).

Hence, the research objective that this contribution set out to achieve, namely to investigate whether there is a relationship between the choice of PPPs for the provision of public social services and the financial commitment, policy orientation and size of the assisted population at local government level.

The results discussed in the previous section allow for some concluding reflections both with regard to possible new lines of future research on the topic and with regard to useful insights for public managers and policy makers. In particular, the analysis carried out together with the limited scientific production on the topic of social sustainability lead to some concluding reflections on the appropriateness of developing the following lines of research:

on the link between the managerial choice of PPPs and the financial resources used for social services, investigating, for example, whether there are different results rispetto a quelli ottenuti nella presente ricerca (no correlazione fra PPP e risorse finanziarie spese per il sociale) depending on the type of service provided (elderly, disabled, minors, etc.). It would be useful to understand whether, depending on the type of social service provided, there is a relationship between the resources committed by the local authority and the use of the PPP;

on the political reasons behind the choice of the managerial form of PPPs for the delivery of social services. For example, by means of questionnaires or case studies on local governments that decide to use PPPs for social services in general or for some of them and, in this the latter case, analysing the reasons why this managerial form is avoided in some cases and not in others.

With regard to public managers and policy makers, the following insights can be drawn from the analysis conducted:

issue of partner choice. Considering that these are social services (which greatly impact the lives of the assisted) the choice of private partners becomes important. In the choice one must consider, first of all, the reference values and skills that will be brought into the partnership (De Matteis et al., 2021);



issue of partner coordination. For the effectiveness of the social services provided, the coordination of the partners involved and of these with the assisted persons is relevant (Caldwell et al., 2017). Hence the need to develop appropriate bodies (e.g., committees) and/or tools aimed at coordination (e.g., digital tools for real-time information sharing). The main limitation of this work is the availability of data dating back to the three-year period 2015-2017. In contrast, this situation has the advantage of ensuring the use of data unaffected by the pandemic phenomenon - which certainly has repercussions from a social point of view - ultimately allowing the development of an analysis unaltered by extraordinary factors.

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# ASSESSING THE IMPACT OF HUMAN RESOURCES MANAGEMENT PRACTICES ON EMPLOYEE ENGAGEMENT IN SOUTH AFRICA

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**Abstract:** *Employee engagement has become an area of interest among scholars and corporates alike. Employees who are not engaged do not perform at their maximum and this effect productivity. Hence, it is important for organisations to establish factors influencing levels of engagement. This study assesses the impact of selected HRM practices in the Gauteng Cooperative Governance and Traditional Affairs Department. This study employed the quantitative approach using a survey in the form of a questionnaire. A systematic sampling method was used, from the population (N=376). The questionnaire was distributed to a sample of (n=188) respondents and 157 questionnaires were valid. The results indicated a weak positive correlation between (HRM practices) recruitment, appointment and selection; compensation, rewards and benefits, performance appraisal; and employee engagement with p-values of (r=.07, n=157, p=.38); (r=.23, n=157, p=.00); and (r=.20, n=157, p=.01) respectively. The former was not statistically significant, while the latter two were statistically significant. Collinearity between variables was found to be ( $\beta$ =.07, t (.87) =.38, p<.05); (B=.21, t (2.9) = .04, p>0.05); and (B=.18, t (2.58) = 0.11, p>0.05). Recruitment, selection and appointment practices did not predict employee engagement whereas compensation, rewards and benefits practices, and performance appraisal practices predicted employee engagement. The analysis of variance (ANOVA) model was statistically significant (F (3.154) = 4.183, p=.01). The R-Squared (R<sup>2</sup>) was 8% and the Durbin-Watson statistic 1.93. The results contributed to the available literature on employee engagement.*

**Keywords:** *Human resource management, engagement, recruitment, selection, compensation, rewards, appraisal, engagement*

## Introduction

Gauteng province, in executing its constitutional mandate, has various departments, which focus on matters of service delivery. One of these departments is the Department of Cooperative Governance and Traditional Affairs (CoGTA). The mandate of CoGTA is to support and mobilise resources for municipalities to facilitate service delivery to the communities. In mobilising the resources, the Department (CoGTA) employs a number of employees who perform a variety of functions. These employees are expected to carry out their functions fully. Hence, it is important that they are engaged in their jobs. CoGTA, particularly the human resource management (HRM) unit, has a duty to keep employees engaged through the implementation of HRM practices. However, a number of challenges, such as changes in leadership, both politically and administratively, have had an effect on the consistent implementation of HRM practices. Inconsistencies in the implementation of these practices have unintended consequences. These consequences may include but are not limited to a decline in engagement levels. Engagement is briefly defined as the

emotional state of mind, when employees are willing to work for the organisation, and achieve both personal and organisational goals (Khodakarami, Dirani & Rezaei, 2018). It is significant to note that employees who are not engaged are likely to leave the organisation. CoGTA has seen some employees leaving the Department, and some of the reasons provided in the exit interviews was that the Department was not applying HRM policies consistently, and the lack of programmes intended to keep employees engaged, to name a few, thus leaving employees feeling uncertain about their future. Therefore, employees were left feeling unsettled and always looking for jobs in other organisations. A number of internal studies have been conducted to diagnose the problem properly, especially the reasons for employees' leaving the organisation.

However, the internal study conducted in 2016 focused mostly on departmental strategic issues (Gauteng Department of Cooperative Governance and Traditional Affairs. Annual Report, 2017). The study recommended, for future research, that variables such as HRM practices in relation to engagement should be studied. Another internal study conducted in the Department focused on the relationship between HRM practices and employee satisfaction. The findings of this study showed that satisfaction in the Department was very low. In instances where engagement is mentioned in these studies, it is only a small section, and not a comprehensive study of engagement.

It is evident that levels of employee engagement in CoGTA is low in spite of the absence of a focused study on engagement. The findings of these studies, although they were done on a small scale, provided a glimpse into the problems in respect of engagement levels in the Department. The challenge attached to less engaged employees is that they are likely to feel neglected, and to a great degree feel that the employer is not concerned with their emotional and physical welfare. Employees in such a situation will probably not be innovative when performing their work and may execute their tasks only for compliance purposes. It should be noted that engaged employees are likely to be productive and have been proven to be more willing to work and stay longer in an organisation. Whereas those who are less engaged are likely to be less productive. Less engaged employees affect the morale of other employees who are willing to work for the organisation. Low levels of engagement in the long run affect work processes. Therefore, it is CoGTA's role as the employer to maintain employee engagement at acceptable levels at all times.

In addition, to justify the need for this study, it is relevant to note that most studies conducted in various organisations globally focused on other phenomena such as motivation and satisfaction to the exclusion or lesser inclusion of employee engagement as a stand-alone phenomenon. As evident in the study of Abbas, Khan and Hussain (2017), this study is also based on determining the relationship between HRM practices and employee engagement.

### **Research purpose and objectives**

The main purpose of this study is to assess the impact of HRM practices on employee engagement within Gauteng CoGTA, and to recommend engagement programmes that can be applied in CoGTA to improve employee engagement levels through the application of HRM practices. To further determine whether relationships exist between HRM practices such as recruitment, selection and appointment, compensation, rewards and benefits, performance appraisal and employee engagement

## **Literature review**

### *Background to Human resource management*

Human resource management is a concept that evolved from personnel management (PM) (Gomez-Mejia, Balkin & Cardy, 2012). This means that there is a close link between HRM and PM. The close link between the PM and HRM does exclude different interpretations. However, these concepts operate more or less the same (Gomez-Mejia et al., 2012). Irrespective of the differences in the interpretation, conceptualisation, origin and history of HRM, the academic fraternity has accepted the existence and the importance of HRM in the modern workplace (Antwi, Opoku, Seth & Margaret, 2016). It is for this reason that a number of academics, among others Christie (2010), Fitzgerald and Mills (2012) and Gomez-Mejia et al. (2012) have researched the concept of HRM extensively.

### *Human resource management definition*

Human resource management is defined in many ways. It must be said though that irrespective of the non-existence of a universal definition of HRM, it does not mean that these various definitions are not accurate (Armstrong & Taylor, 2014; Kaufman, 2015; Noe & Hollenbeck, 2010; Price, 2011; Sharabi & Harpaz, 2010). The definitions of HRM provided here give the viewpoints of this concept from different approaches. Watson (2010) provides a comprehensive definition and defines HRM as “the managerial utilisation of the efforts, knowledge, capabilities and committed behaviours, which people contribute to an authoritatively coordinated human enterprise as a part of an employment exchange to carry out work tasks in way which enables the enterprise to continue into the future”. In addition, according to Armstrong and Taylor (2014) HRM is a rational and planned approach to managing an organisation’s most valuable asset, the employees, who are able to contribute individually and collectively to achieving the strategic objectives of the organisation.

In brief, the definitions emphasise the crucial role played by HRM in the success of an organisation and, therefore, it is imperative that HRM should be integrated with core business of an organisation. Given that its prime focus is on the organisation’s greatest asset, its human capital, as alluded to in research by Armstrong and Taylor (2014), HRM is not operating in isolation, but as an important business partner and strategic tool in an organisation.

### *Human resource management practices*

In the HRM space, if particular functions are considered to be less significant than others, they attract less budget or resources, and this renders them less effective compared to other organisational functions (Guest, 2017). Therefore, coordination and balancing of the various human resource practices will enhance the HR practices of an organisation if greater emphasis is placed on these HR-related strategies and practices. Many human resource management practices abound in different organisations. However, for the purposes of this study, the focus was on recruitment, selection and appointment and compensation, rewards and benefits as well as performance appraisal as independent variables.

### *Recruitment, selection and appointment*



The purpose of the recruitment process is to provide an organisation with clear procedures to be followed in respect of filling vacant positions (Usmani, 2020). It is important to manage this process properly because if this is not the case unsuitable candidates might be recommended (KA, 2020). It must be noted that the organisation might incur costs that could have been avoided if proper recruitment processes had been followed (Hardini, Setyarini & Harto, 2019). When an organisation embarks on a recruitment drive, it must be mindful that the recruited employees are likely to stay longer, and therefore candidates who fit in with the organisation's culture should be identified for appointment (KA, 2020). However, on the contrary, if an organisation hires an employee who leaves within a short period of time, it means that the organisation must once again spend money to fill the position that had recently been filled (Hardini et al., 2019). Recruitment, selection, and appointment is commonly defined as the process of identifying the human capital needs of an organisation over a period of time (Antwi et al., 2016). These actions are followed to ensure that the organisation is to achieve its strategic goals and to acquire skills that may be required in the future. Recruitment is therefore based on the needs of the organisation. Hence, the human capital that has been identified as required should meet specific requirements relating to qualifications and experience, and so forth.

#### *Compensation, rewards, and benefits*

Reward strategy, as defined by Armstrong and Taylor (2014:332) is: The deliberate utilisation of the pay system as a significant integrating mechanism through which the efforts of various sub-units and individuals are directed toward the achievement of an organisation's strategic objectives. Compensation, rewards and benefits are a central component of an organisation, with various parties entering into a contractual agreement (Gooderham, Fenton-O'Creevy, Croucher & Brookes, 2018). The contract entered into between the employer and employee stipulates the duties of the employer and also the responsibilities of the worker (Abbas et al., 2017). In the same vein, Abbas et al. (2017) and Gooderham et al. (2018) highlight that the employer must compensate the worker, and thus the worker must perform, needless to mention, in line with the requirements stipulated in the contract. Therefore, it is important to note that compensation, rewards and benefits play a pivotal role in employee motivation and job satisfaction (Ugwu & Okojie, 2016).

#### *Performance appraisal*

Performance appraisal is considered to be one of the predictors in the management practices, and performance feedback should be provided consistently. Ugwu and Okojie (2016) stated that favourable performance feedback can create a favourable psychological climate which will improve the level of employee engagement. Similarly, Rao and Rao (2017) posit that providing constant and honest feedback enables employees to improve their performance. Ugwu and Okojie (2016) found a positive and significant relationship between feedback-oriented performance appraisal and employee engagement among the employees in the banking sector of Nigeria. The researchers Ugwu and Okojie (2016) confirm that there is a positive relationship between performance appraisal and engagement. Some studies (Ahmed, Ahmad & Raihan-Joarder, 2016; Nazir & Islam, 2017) indicate that there is an insignificant relationship between performance appraisal feedback and engagement. Therefore, the outcomes of the relationship will differ from organisation

to organisation depending on how organisations implement their performance appraisal system and how consistently employees receive performance feedback (Rao & Rao).

*Employee engagement*

Literature proposes that employee engagement comprises three dimensions. For instance, Kulikowski (2017) argues that the concept of ‘employee engagement’ is used to describe employees who are cognitively, emotionally, and behaviourally engaged in the workplace. Engagement therefore refers to the degree to which employees are focused on their tasks, are mentally immersed and absorbed in performing their expected tasks (Joo, Zigarmi, Nimon & Shuck, 2017). Employee engagement is defined as a state of employees feeling involved, passionate, committed, and empowered while demonstrating those feelings in their behaviour towards their jobs (Gallup, 2009; Reina, Rogers, Peterson, Byron & Hom 2018). Therefore, it indicates the level of involvement in and employee commitment to their organisation and its values (Presbitero, 2017; Shanker, Bhanugopan, Van der Heijden & Farrell, 2017).

**Research methodology and design**

*Research approach*

This paper follows a quantitative approach wherein a questionnaire was used. This approach allows the researcher to collect data using a questionnaire wherein numerical data is collected and when analysed in generalize across groups in explaining the phenomenon under research (Babbie, 2013). Descriptive studies are aimed at finding out "what is" and are designed to provide a bigger picture of a situation as it happens naturally (Babbie, 2013).

*Research participants*

A population is the sum of all units of analysis from which the sample is drawn (Babbie, 2013). Population includes all the people or items that has specific characteristic the researcher intends understanding. This study is undertaken in Gauteng in the Department of Cooperative Governance and Traditional Affairs, South Africa. The target population for the study is N=376 comprising of senior managers, middle management, supervisors, and junior employees. The sample in this study is (n=188). However, 157 questionnaires are valid and 31 discarded due to various discrepancies and. The response rate from the sample is at least 80%. Table 1 below reflects the demographic profile of respondents:

**Table 1: Demographic profile of respondents**

Dimension	Valid percent
Gender	
Female	56
Male	44
Age	
18-30 years	24
31-40 years	32
41-50 years	33
51-60 years	10
61 years and above	1

Level of employment	
Chief Director	8
Director	13
Deputy Director	31
Assistant Director	24
Administrator	14
Personal Assistant	10
Education	
Below Matric	1
Matric	1
Certificate/Higher Certificate	4
National Diploma	19
Degree	45
Honours/BTech/Postgraduate Diploma	18
Masters	10
PhD/DTech	1
Years of employment	
Below 1 year	8
1-5 years	36
6-10 years	45
11-15 years	10
16 years and above	1

*Research instrument*

A Likert scale is used in the questionnaire. Respondents chose from five options, wherein a five-point rating scale is used. The scale divided as follows for HRM practices Recruitment, selection and appointment, Compensation, rewards and benefits, Performance appraisal, 1=Strongly disagree; 2=Disagree; 3=Agree; 4=Neutral and 5=Strongly agree. The same rating is used for employee engagement. The reason for using the five-point Likert scale is that it provides a wide range of responses which allows the researcher to receive fair responses from respondents. Cronbach’s alpha is used to test the validity and reliability of the questionnaire. The Statistical Package for Social Sciences version 22 is used for this purpose. The constructs met the adequate reliability level of above 0.6 (Fornell & Larcker, 1981). The results of the Therefore, the instrument met both validity and reliability requirements.

**Table 2: Cronbach Alpha coefficients**

Construct	Cronbach’s Alpha	N of items
Recruitment, appointment, and selection	0.7	11
Compensation, rewards and benefits	0.8	10
Performance appraisal	0.8	9
Employee engagement	0.7	12

**Table 3: Summary of descriptive statistics**

Variable	N	Mean		Std. Dev
	Statistic	Statistic	Std. Err.	Statistic
Recruitment, selection and appointment	157	3.27	.033	.416
Compensation, rewards and benefits	157	3.05	.034	.430
Performance appraisal	157	3.23	.036	.456
Employee engagement	157	3.06	.031	.397

Valid N (listwise)	157			
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*Research procedure and ethical considerations*

For the main purpose and hypotheses of this study, a questionnaire was used to collect data. According to Hennink, Hutter and Bailey (2011) deemed that a questionnaire is a simple yet effective research tool and is cost effective. Furthermore, a questionnaire guarantees respondents’ confidentiality. Questionnaires were sent to respondents via emails for pilot purposes. After pilot the questionnaire was amended. The questionnaire was distributed physically, in compliance with Covid-19 protocols to respondents. After completion respondents placed the questionnaires in a designated box for collection.

Data was captured into an MS Excel spreadsheet from the questionnaires that were returned. The data was then transferred from the MS Excel to the Statistical Package for Social Sciences (SPSS) version 22, where it was cleaned up and validated to ensure that all the responses were properly captured according to the statements or questions in the questionnaire. After the data was validated, the process of analysing was executed.

There was no respondents’ personal information shared and as such, respect privacy and ensure confidentiality (De Vos, Strydom, Schulze & Patel, 2011). In addition, there were no ethical guidelines that were breached. Throughout the process of the study the researcher ensured that human dignity was always maintained without any infringements (De Vos et al., 2011). The Ethics Committee from Management College of Southern Africa granted the researcher permission to continue with the study

*Statistical analysis*

The demographics (gender, age group, years of experience, academic qualifications, level of employment and directorate of respondents) of the sample and descriptive statistics are analysed using percentages, frequencies, mean and standard deviation through MS Excel and SPSS version 22. In establishing whether correlation existed between variables, a Pearson product-moment correlation coefficient was computed to determine the strength of relationships, for instance strong to weak or positive to negative for HRM practices (recruitment, selection and appointment; compensation, rewards and benefits; performance appraisal) and employee engagement.

The significance value was tested at a 95% confidence level ( $p \leq 0.05$ ). Data was presented using tables to indicate the strength of the relationships for each independent variable (HRM practices) and dependent variable (employee engagement). Analysis of variance (ANOVA) in this study was used to test whether there was a significant regression between the independent variables (HRM practices) and the dependent variable (employee engagement). In addition, R-Squared was used to measure how close the data was to the fitted regression line (Dhakal, 2018). Generally, the higher the R-Squared, the better the model fits the data. The R-Squared values of between 0.13 to 0.25 indicated medium effect, and therefore the study was considered to be significant (Frost, 2017).

**Results**

Descriptive results indicate that the sample represented in Table 1: gender representation comprised 88 (56%) female and 69 (44%) male respondents, Age category showed that most employees were in the age category 41-50 (33%), level of employment most

employees are located in positions of Deputy Directors (31%), most employees have undergraduate degrees (45%). In respect of years of employment most employees have between 6-10 (45%) years. Table 4 indicate the results after testing the relationships of the variables in line with the hypotheses. There are three hypotheses.

**Table 4: Relationships between HRM Practices and employee engagement**

		Recruitment, selection and appointment	Engagement
Recruitment, selection and appointment	Pearson correlation	1	.070
	Sig. (2-tailed)		.384
	N	157	157
		Compensation rewards and benefits	Engagement
Compensation, rewards and benefits	Pearson correlation	1	.228**
	Sig. (2-tailed)		.004
	N	157	157
		Performance appraisal	Engagement
Performance appraisal	Pearson correlation	1	.202*
	Sig. (2-tailed)		.011
	N	157	157

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table 5: Analysis of variance**

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	1.871	3	.624	4.183	.007a
Residual	22.804	154	.149		
Total	24.675	157			

a. Predictors: (Constant), Performance appraisal; Recruitment, selection and appointment; Compensation, rewards and benefits

b. Dependent variable: Employee engagement

**Table 6: Analysis of variance**

Model	R	R-Squared	Adjusted R-Squared	Std. Error of the estimate	Durbin-Watson
1	.275a	.076	.058	.38607	1.931

a. Predictors: (Constant), Performance appraisal, Recruitment, selection and appointment, Compensation, rewards and benefits

## Discussion

### Outline of results

The purpose of this study is to assess the impact of HRM practices on employee engagement in Gauteng Department of Cooperative Governance and Traditional Affairs. There are three hypotheses. Findings of the results in Table 4, Ho1: There is a positive relationship between HRM recruitment, selection and appointment practices and employee engagement. The results produced ( $r=.07$ ,  $n=157$ ,  $p=.38$ ), which indicate that there is a weak positive relationship between HRM recruitment, selection and appointment practices and employee engagement, meaning that it was not statistically significant. Therefore, the null hypothesis was supported, indicating that there is no statistically significant

relationship between HRM recruitment, selection and appointment practices, and employee engagement.

Findings of the results in Table 4 Ho2: There is a statistically significant positive relationship between HRM compensation, rewards and benefits practices and employee engagement within Gauteng Department of Cooperative Governance and Traditional Affairs. The results produced ( $r=.23$ ,  $n=157$ ,  $p=.00$ ), which indicate a weak positive linear correlation, which is statistically significant, between HRM compensation, rewards and benefits practices and employee engagement. Therefore, null hypothesis is not supported. Furthermore, the results are in concurrence with the results of a study conducted by Indriyani and Heruwasto (2017), which showed that employees' remuneration influenced their levels of engagement.

Findings of the results in Table 4 Ho3: There is a statistically significant positive relationship between HRM performance appraisal practices and employee engagement within Gauteng Department of Cooperative Governance and Traditional Affairs. The results produced ( $r=.20$ ,  $n=157$ ,  $p=.01$ ), which indicate ( $r=.20$ ,  $n=157$ ,  $p=.01$ ), between HRM performance appraisal practices and employee engagement. Therefore, null hypothesis is not supported. The results of the study are in line with a study conducted in IT companies in Chennai city in the Indian state of Tamil Nadu (Sivapragasam & Raya, 2017) found a statistically significant relationship between HRM practices (performance) and employee engagement in cases where employee well-being played a mediating role.

Analysis of variance is used to determine how well the regression equation fitted the data. The results are  $F(3.154) = 4.183$ ,  $p=.01$ . This means that the model is statistically significant and as such predicted the outcome variable. Lastly, the R-Squared ( $R^2$ ) produced .08, which is equal to 8% and the Durbin-Watson statistic was 1.932, which is not less than 1 or greater than 3. This means that the model falls within the acceptable norm.

### **Practical implications**

The study makes contribution to the body of knowledge in respect of the HRM practices and their impact on employee engagement. The knowledge generated by this study can be used as an example by other departments or to a greater extent other sectors in conducting similar studies in their spaces, when they can compare the findings of this research against their own findings. The study furthermore contributes to the Department of Gauteng CoGTA by making recommendations that the Department can apply to improve levels of employee engagement through HRM practices. The researcher believes that a better and clearer understanding of variables that were part of this study will assist the Department successfully to have engaged employees. Lastly, the understanding of the existing relationships between the selected HRM practices variables and employee engagement contribute to the field of HRM in general.

### **Limitations and recommendations**

The study focused only on Gauteng CoGTA and not any other department in the province. National departments and Gauteng provincial entities, including those of municipalities in the Gauteng province, were not included in the study. The study focused on the selected

employees in the Department. The Member of the Executive Committee (MEC) and the Head of Department (HOD) of Corporative Governance and Traditional Affairs were not part of the study. However, the HOD, as the Accounting Officer of the Department, granted permission for the study to be conducted in the Department. Only the selected directorates, albeit not exhaustive, featured in the study, and employees below the salary level of Grade 7 were not part of the study.

The study focused only on the impact of the selected HRM practices (recruitment, selection and appointment; compensation, rewards and benefits; performance appraisal) on employee engagement. Other HRM practices were not included in the study, which might have had an effect on employee engagement. The HRM practices used in the study were chosen in order to be able to manage the research process. It would not have been feasible to consider using all possible HRM variables as part of the study.

## **Conclusion**

This research focused on establishing the impact of HRM practices (recruitment, selection and appointment; compensation, rewards and benefits; performance appraisal) on employee engagement. The results indicate that recruitment, selection and appointment have a weak positive relationship with employee engagement, therefore this relationship is not statistically significant. This means that the relationship between recruitment, selection and appointment and employee engagement occurs by chance. However, the findings of the relationship between HRM compensation, rewards and benefits practices and employee engagement is that there is a weak positive relationship, which is statistically significant. The relationship between HRM performance appraisal practices and employee engagement was found to be a weak positive relationship, which is also statistically significant.

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### *Competing interests*

The authors declare that they do not have any financial or personal interest that may compromise the publishing of the article or that may have inappropriately influenced them in writing and publishing this article.

### *Author's contribution*

AJ Mokoena is the primary researcher of this paper, and this article was drawn from his Master of Commerce completed at Management College of Southern Africa (Mancosa). He is solely responsible for conceptualisation of the research, collection of data, analysis, and interpretation of data.

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### *Data availability statement*

New data was collected and as such there are no previous studies that used the data in this paper. Data was made available as per the permission granted to conduct the study.

*Disclaimer*

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of any affiliated agency of the authors.

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## THE IMPACT OF INTER-ETHNIC CONFLICT ON DEVELOPMENT IN ETHIOPIA

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**Abstract:** Ethiopia is known for its long history of highly centralized, exclusive and suppressive governance system which came to an end with the adoption of multi-ethnic federal political system in 1991. The new ethnic federal state arrangement was believed to bring peace, provide a new basis for unity and reduce conflicts. However, ethnic conflict has become the day-to-day experience in different parts of the country. Afar Regional State is one of the constituent units where conflict has been prevalent. Different researches indicated that conflict affects socio-economic development in various ways. The objective of this paper is to analyze the impact of inter-ethnic conflict on the socio-economic development of Afar Regional State in Ethiopia. The data for this paper were gathered through qualitative methods as well as review of published and unpublished documents. Specific tools for primary data collection include key informant interviews, focus group discussion, and observation. The study analyses the causes and consequences of conflicts between Afar and its neighboring ethnic groups, the Issa-Somali and Amhara. The study reveals that the restructuring of the country along ethnic lines has transformed the century-old resource-based conflicts among pastoralist communities into territorial conflicts. The paper concludes that interethnic conflicts have been adversely affecting the socio-economic development of Afar Regional State.

**Keywords:** Afar, Amhara, conflict, development, Ethiopia, ethnic, Issa,

### Introduction

Ethiopia adopted ethnic federalism and structured the regions along ethnic lines following the endorsement of the current constitution in 1994. Like other nations, nationalities, and peoples, the federal system created an opportunity for the Afar people to have their own separate regional state. This political empowerment of Afar was expected to accelerate the socio-economic development of Afar Regional State. Nonetheless, according to various sources, the Afar region remained to be the least developed regional state within the Ethiopian federation. The paper analyzes the impact of inter-ethnic conflicts on the socio-economic development of Afar Regional State. The paper begins with a brief note on the nexus between conflict and development. This was followed by an analysis the conflict between Afar and Issa Somalis as well as the conflict between Afar and Amhara neighboring communities and the impact of these conflicts on the socio-economic development of Afar Regional State

### Literature review

#### *Conflict–development nexus*

One of the topics on which academics in the field of social science are focusing is the relationship between conflict and development. According to trend observations, conflict

affects economic growth and low economic growth raises the chance of conflict (McIntosh and Buckley, 2015). Nevertheless, this is not always true because different environments exhibit conflict and economic growth in very different ways (Ibid). Military expenditure contributes for an additional 18% GDP both during and after war, which reduces per capita growth by 2.2%.annully. Insecurity can affect the economy in a variety of intricate ways. Through a variety of pathways, insecurity can cause economic activity to be disrupted, with potentially significant and enduring impacts. Violence and devastation can induce fear, which can impede economic growth and led to the collapse of political institutions and public services like education and health. Countries might get caught in endless cycles of conflict that impede economic progress when institutions are weak (Mueller and Tobias, 2016).

The following explanation may illustrate the multidimensional and comprehensive impacts of conflict on development:

Conflicts impose immeasurable human suffering and large economic and social costs. The loss of human life; destruction of infrastructure, human capital, and institutions; political instability; and greater uncertainty associated with conflicts can impede investment and economic growth not only during conflict but also afterward, making it difficult to escape the "conflict trap." In addition, conflicts tend to complicate public finances, lowering revenue by destroying part of the tax base while raising military expenditures... (Kothari et al, 2019: 25).

Sub-Saharan Africa has been marred by conflicts during the past several decades. Although the intensity of conflicts has decreased in recent years when compared to the 1990s, the region remains prone to conflict, with approximately 30% of countries affected in 2019 (Fang et al, 2020). Conflicts in the region have resulted in unimaginable human suffering and significant financial costs. Similarly (Kothari et al, 2019) asserted that controlling other determinants of growth, conflicts have a significant negative effect on economic growth in sub-Saharan Africa. Some of the key channels through which conflict impedes economic growth are decreased investment, trade, and productivity, along with human and physical capital destruction through forced displacement and devastating effects on education and health care. A major consequence of conflicts in sub-Saharan Africa, as well as elsewhere, is the displacement of populations (Ibid). In this context, Stavenhagen (1996), contends that the economies of many countries ravaged by civil war and other kinds of political strife have been set back by years, if not decades. Empirical studies conducted in different countries would attest the adverse effects of conflict on development. For instance, according to Onono (2016), ethnic conflicts among Turkana and Pokot communities in the northern principalities of Kenya have been manifested in competition and control over the use of scarce natural resources, raids, and cattle rustling. These conflicts resulted in ineffective resource utilization, reduced mobility, and food insecurity. He further asserted that persistent conflict undermines local economies as well as the entire country's economic performance.

The experience in Ghana also showed similar effects of conflict on development. Like in Kenya, the causes of ethnic conflicts in the Northern Region of Ghana are varied. Mbowura (2014), mentioned that Kpandai District in Northern Ghana was enmeshed in an inter-ethnic conflict between the Gonja and the Nawuri over land rights. Apart from the loss of human lives and property, the war disrupted economic and socio-cultural activities. Similarly, a study conducted in Nigeria revealed that conflict has a significant impact on

the economic development of Nigeria (Ijeoma, 2014). This is because conflicts often disrupt economic activities and thereby reduce the per capita taxable capacity of the economy. Countries in the Horn of Africa have faced many inter-communal armed conflicts. The economic costs of the various wars and conflicts are also likely to be huge given the massive destruction of property and profound socio-economic disruptions. Some view conflict as the single greatest barrier to the region's socio-economic development (Kidane, 2011). Similarly, Yigzaw, et al. (2019), argued that conflict and population displacement are among the most significant contemporary problems facing the Horn of Africa.

The impact of conflict on development in Ethiopia cannot be exceptional. The the introduction of ethnic-based federalism gave the existing conflicts a new dimension (Bamlaku, et al, 2015). In this regard, Abbink (2006) argued that the most observable impact of federalism in Ethiopia has been the decentralization of ethnic conflicts at regional and local levels. In the same fashion, Lubo (2013:66) asserted that "In spite of the creation of ethnic federalism as an endeavor to address inter-ethnic conflictual problems in Ethiopia, many ethnic conflicts have occurred after 1991".

Ethnic-based resource conflicts are common in eastern Ethiopia among the Afar, Ittu-Oromo, and Issa-Somali pastoral groups. According to Bamlaku et al. (2015), the trends and prevalence of violent conflicts are increasing due to increased resource scarcity, absence of property rights, and weak customary institutions. Moreover, the research revealed that socio-political factors and competition over scarce natural resources, particularly water and pasture land, were found to be among the most important causes of most (agro) pastoral conflicts. Various studies attest that pastoral areas have never been places where livelihoods run peacefully. Access to and competition over scarce resources are the major causes of conflict that has been historically documented in pastoral areas (Getachew, 2001; Markakis, 2003; Rettberg, 2010; Yasin, 2010; Kelemework, 2013; Mu'uz, 2015; Biniyam, 2016). Most of the literatures written on Afar -Issa conflict shades light on causes and effects in terms of loss of life and destruction of infrastructure. Such literatures overlooked the impact of conflict on the overall development of Afar Regional state. Therefore, this study investigates the interface between conflict and development in Afar Regional State by examining the driving forces behind interethnic conflicts between Afar and its neighboring communities, the Issa Somalis and the Amhara.

## **Research methodology**

### *Research Design*

Research Design is the conceptual structure within which research is conducted. It is the blueprint for collection, measurement and analysis of data. Research design articulates what data is required, what methods are going to be used to collect and analyze this data, and how all of this is going to answer research question (Kothari, 2004). This study applied descriptive and explanatory research designs to investigate the happen (descriptive) and the why it happen (analytical) aspect of the problem being researched. The study also employed qualitative research approaches to generate detail and appropriate information helpful to understand the perspectives of the various categories of people regarding the research topic.

### *Sample Size*

Purposive and snowballing sampling technique was employed to get knowledgeable participants voluntary to discuss about the issue to be researched. As suggested by Marshall and Rossman (2016), this technique helped the researcher in removing worthless answers and gaining comprehensive and practical viewpoints. Generally, 96 participants were interviewed from federal institutions, regional, Zonal and Woreda levels administration, community members as well as Tendaho Sugar factory workers. The researcher also conducted focus group discussions with a group of 6- 8 purposefully selected participants in each focus group discussions both in the regional capital and in the three selected Woredas. Interview schedules comprised of open-ended questions and the schedule was communicated to participants.

#### *Data Gathering Instrument*

This study was based on primary data and secondary sources. The data were collected between 2017, and 2020 from a wide category of people in different locations. The researcher used a variety of data gathering tools in order to collect a wide range of information which enabled him to investigate the topic in depth. Accordingly, data for this study was gathered through in-depth interviews, focus group discussions, personal observation and document analysis. ss. Structured and semi-structured interviews with open-ended questions was used because it allowed the respondents to talk at length about their experiences, views and events. Focus group discussions were conducted with selected Woreda Office heads, educated Afars, pastoralists, civil servants, Youth and women.

#### *Analysis of Data*

The data collected through the different instruments were systematically analyzed to make final conclusion. According to Simon(2011), dealing with qualitative data involves “organizing the data, dividing it into manageable parts, synthesizing it, looking for patters, figuring out what is significant, what needs to be learned and selecting what to tell others”. According to Cresswell (2005), in qualitative research data gathering and data analysis go side by side. Thus, the data analysis process started from the time of the first interview, the first observation, the first focus group discussion and the first document record.

### **Results and discussion**

#### *The conflict between Afar and Issa in post 1991 federal Ethiopia*

Afar Regional State was established following the introduction of federal system in Ethiopia in 1991. However, during the transitional period (1991–1994) the Issa Somalis trespassed into Afar territory (Biniyam, 2016). During this period, the Issa controlled more territory than they had in thirty years (Mu'uz, 2010). The Issa crossed the Awash River and controlled the three Kebeles in Afar territory namely Adaytu, Gedamaytu, and Unduffo. Participants of the interview and focus group discussants also asserted that the Issa used the short transitional period of instability and disorder as a grace period for their intrusion deep into Afar territories.

Afar and Issa were in conflict for centuries. Thus, EPRDF inherited the Issa-Afar violent conflict with great vigour due to the ever-growing and changing issues that make it difficult to solve the old with the rise of new issues (Mu'uz, 2015). According to an educated Afar, lack of knowledge on the part of the EPRDF fighters regarding to whom the above kebeles

belong to, helped the Issa to take root in Afar lands. Biniyam's statement corroborates this idea, which he states:

The EPRDF force, particularly the Tigray People's Liberation Front (TPLF) fighters who controlled Adaytu and its surroundings, first met the recently arrived Issa. They had no knowledge about the area or the Afar-Issa conflicts. Hence, they considered the Issa the native inhabitants of Adaytu because they met them there before the Afar groups. They preached for the peaceful coexistence of the two groups at Adaytu instead of giving room to the claims of ownership rights, (Biniyam, 2016:51).

The Issa controlled areas by displacing the Afar, and this changed the nature of the conflict from a resource conflict to a political-territorial conflict. The control of Afar territories by Issa-Somalis has intensified the conflict between the two ethnic groups. In this regard, Biniyam (2016), asserted that ethnic federalism has aggravated and transformed the age-old Afar-Issa conflict from a resource-based conflict into a boundary conflict. For instance, in 1993, well-equipped Afar men opened fire against the Issa at Ell-Wuha, 35 kilometers away from Adaytu, and about 150 Issas were killed (Yasin, 2010). Conflicts between the two ethnic groups resulted in the loss of human life and livestock, loss of animals in raids, depletion of financial assets, destruction of infrastructures, and degradation of natural resources (Rettberg, 2010). However, loss of land plays a prominent role in raising conflict because of its economic and symbolic function, places that symbolize their social identity. For this reason, it is easier for pastoralists to name lost territories than lost family members in the conflict (Ibid).

#### *Efforts of Resolving Afar-Issa Conflict*

Conflict between Afar and Issa became the day-to-day experience in post-1991 federal Ethiopia. The first meeting between officials and representatives of the ethnic groups was held at Awash, 7 Kilo town, on 17 July 1994. A document was prepared that contained proposals like options for common resource use arrangements, establishment of joint peace committees, and working together on conflict management (Biniyam, 2016). In 1996, the presidents of the two regional states gathered at Duftir (Afar region) and discussed on the conflict between the two ethnic groups (Michaclson, 2000). At the Awash Conference officials from Afar Zones and Siti Zone of the Somali Regional State, along with local elders, and a federal government representative came together and agreed to establish a Joint Afar-Issa Peace Committee (JPC) at the regional, Zonal, and Woreda levels of administration. After years of reluctance, the federal government finally showed its concern about the conflict between Afar and Issa following the outbreak of the Ethio-Eritrean war in 1998. The delegation of the federal government promised to bring lasting solution to the conflict after defeating the Eritrean force (Biniyam, 2016). The split in the top leaders of the TPLF in 2001 adversely affected the Afar-Issa peace efforts and war violence began escalating once again (Muauz, 2018). In 2010, the Joint Peace Committee on Peace and Reconciliation (JPC) held meetings in Awash, 7 Kilo between Afar and Issa and tried to resolve tensions between the two ethnic groups. However, none of the meetings tried to touch the root causes of the conflict that had been simmering for years (Yasin, 2010).

The federal government failed to fulfill its promise of resolving the boundary issue between the two ethnic groups. The JPC was unable to stop deaths and lootings on both sides and that the government's intervention was not serious. The Afar continued to claim their

historical rights over Issa-inhabited Kebeles in Afar region, while the Issa claimed constitutional rights to live in these areas. The federal government faced the dilemma of having to choose between the contrary solutions demanded by the rival parties. A decision in favor of the historical rights of Afar would alienate the Somalis, while a referendum desired by the Somalis would upset the Afar (Markakis, 2003).

Successive committee meetings could not avoid conflicts between Afar and Issa. In March 2002, about 13 Issa-Somalis were killed and 10 others wounded in clashes between the two ethnic groups over grazing land and water Sources (Markakis, 2003). This conflict affected truck drivers along the main road, which created a fuel shortage in Addis Ababa. The severity of the conflict forced the federal government to give due consideration to start peace talks (Ibid). However, consecutive meetings could not bring tangible solutions due to the irreconcilable claims of the conflicting parties (Ibid). Moreover, according to the explanations of interviewees and focus group discussants, the federal government was also playing a kind of fire brigade role to ensure the safety of the main road instead of searching for lasting solutions to conflicts between the two ethnic groups. In this regard Yasin (2010), asserted that the fruitless chain of meetings held by the JPC at Awash 7 Kilo wound up its mission in 2004 without bringing any tangible solution.

Sporadic conflicts continued due to the irreconcilable interests of Afar and Issa-Somalis over the ownership rights of the three contested Kebeles inhabited by ethnic Issa Somalis: Adaytu, Gedamaytu, and Undufo. According to Yasin (2010:192), "the joint administration of the contested hamlets has demolished around forty-seven houses in Gedmaytu and a number of illegal settlements in Unduffo." In 2008, the major town of Gedamaytu was banned as an illegal Issa settlement, and a huge stock of contraband commodities was confiscated after a fierce battle against federal and regional law enforcement forces. However, within a few months, the Issa re-inhabited the town and began to use it as a hot spot for the contraband trade more than before (Asnake, 2013).

The federal government's stand vacillates like a pendulum to either of the sides depending upon the situation. For instance, in 2008, the federal government considered Gedamaytu an illegal Issa settlement. Regarding this, Muauz (2017), pointed out that in a meeting held at Awash 7 Kilo in June 2011, the Ministry of Federal Affairs proposed a recommendation to provide legal recognition of the Issa inhabited territories. This enraged the Afar, and participants in the meeting walked out of the meeting hall. The Afar expressed their discontent against the federal government by violently attacking federal government truck drivers and trucks of the TPLF-affiliated endowment enterprise, Trans-Ethiopia. Participants in the interview asserted that the federal government gave less attention to the continuing violent conflict between Afar and Issa. They added that the federal government usually gives concern to peace talks when the conflict disrupts the main road, which is the lifeline of the country. They further explained that the irreconcilable claims of the parties to the conflict, Afar and Issa make it difficult to find out lasting solution.

Clashes between Afar and Issa ethnic groups continued along the boundary of the three contested Kebeles (Adaytu, Gedamaytu, and Undufo), located along the highway between Addis Ababa, Djibouti. Data obtained from the reports of the Ministry of Federal Affairs and the Afar Peace and Security Administration Bureau showed that Afar and Somali Regional States signed a memorandum of understanding on December 17, 2014 at Awash 7 Kilo in the presence of representatives of the Ministry of Federal Affairs and the Deputy Prime Minister. The agreement recognized a 'Special Kebele Status' for the three contested

Kebeles predominantly inhabited by Issa-Somali ethnic groups under the administration of Afar Regional State.

The Afar-Issa violent conflict came to a rapid halt in 2014 after the two regional states signed a memorandum of understanding with the intention of bringing lasting peace, development, and good governance among the people of the two regional states living along border areas. Afar and Issa elders interviewed at Andido and Gedamaytu on February 11 and 13, 2019 respectively, expressed that relative peace was restored after the 2014 agreement. Participants of the interview also explained that relative peace prevailed for at least four years, referring to the period after the 2014 peace agreement. A resident of Halai-Debi Kebele in Amibara Woreda explained: "These days we are peace with the Issa-Somalis, but we never trusted each other. They often steal our livestock, and we reacted by stealing theirs." Based on the memorandum of understanding, a committee was set up to demarcate the boundaries of the three Kebeles: Adaytu, Gedamaytu, and Undufo, and Sub-Kebeles. The committee accomplished the task of demarcating the administrative boundaries in January of 2016. Then the federal government presented the report to the regional state governments and they were asked to forward their feedback to the committee. The regional state governments did what they were asked. The committee made minor corrections on Gedamaytu demarcation points and presented the final report (Afar Regional State Peace and Security Administration Bureau, February 14, 2016).

The Ministry of Federal Affairs prepared an agreement document comprised of six articles. It was expected that the governments of the two regional states would sign the final agreement in June 2017. According to Article II of the agreement document, the aim of the agreement was to find lasting solution to the conflict along the boundary and to integrate the neighboring communities through development and good governance, as well as to ensure reliable and sustainable peace in the area (MoFA, 2017).

#### *Recent Situation of Afar-Issa Conflict*

The short-lived relative peace between Afar and Issa began to deteriorate in 2018 when clashes erupted among neighboring communities. The researcher participated during the new prime minister's discussion with representatives of the Afar people on June 28, 2018 in Semera. Regional leaders at different levels, community elders, and clan leaders who participated in the conference raised several questions regarding various issues. A participant from Amibara Woreda raised problems related to conflict in which the Afar people have been involved as:

The Afar people have been in conflict with almost all of their neighbors for centuries, and the conflict between Afar and Issa has become worse now than ever before. We expect that your government will come up with a quick response and provide lasting solution to the conflict. The boundary demarcation agreement has to come into effect to stop the displacement of many Afar and the gradual expansion of the Issa-Somalis into Afar territories.

In this regard, one educated Afar mentioned that the relative peace situation lasted for about four years after the December 2014 agreement between the two regional states. However, conflict between Afar and Issa started with vigor in the last quarter of 2018, which became the norm soon after. For instance, according to the data obtained from the Peace and Security Administration Bureau of Afar Regional State, conflict suddenly erupted in Undufo Kebele on the night of December 24, 2018. The Special Forces of Afar Regional



State moved to the Kebele to pacify the area, but they clashed with equipped individuals. In this conflict, four people were killed and thirteen others were wounded. Moreover, the movement of vehicles hauling loads and passengers along the Addis Ababa-Djibouti highway was interrupted until the middle of the next day. Moreover, on December 26, 2018, armed men (militants) equipped with machine guns coming from the direction of Djibouti killed eighteen Afar and thirty-six others, including old men, children, and women, were wounded. During this attack, several domestic animals were also killed, and properties were vandalized.

The shared agreement among participants of the interview and focus group discussants was that the conflict situation had become worse than the previous ones starting from the beginning of 2019. Afar interviewees mentioned that the Issa Somalis living in the three special Kebeles have enjoyed self-administration for the last four years under the Afar Regional administration. However, the conflict between Afar and Issa relapsed in January 2019. In this regard, one of the interviewees explained that the current conflict was caused by Issa's rejection of their integration into the Afar Region and their desire to be part of the Somali Regional State. In order to loosen the conflict, the federal government decided on the withdrawal of Afar Special Forces from Gedamaytu, which enraged the Afar.

The Afar protested against the decision of the federal government and soon conflict broke out in January 2019. During this conflict, the Addis Ababa-Djibouti main road, through which 90% of the country's import-export trade passed was blocked. This historical event was televised by the EBC on January 13, 2019. An educated Afar elite who supported the action taken by Afar protestors echoed his ideas as:

Forced withdrawal of the Afar special force from the three Kebeles is denying the ownership rights of the Afar Regional State over its own territory. Members of the Afar Regional State police force were living in these Kebeles inhabited by the Issa Somalis to ensure peace in the area. But conflict aroused when the Issas burned the flag of Afar Regional State. The withdrawal of the Afar special force from Gedamaytu implies unlawful loss of our territory. Like other Ethiopians, the Issas can live in the designated special Kebeles, own property, and engage in different activities, but the land belongs to the Afar Regional State.

The peace initiatives failed to bring lasting solutions to the conflict between the Afar and Issa ethnic groups. One of the interviewees considered the successive peace initiatives as fire-brigade tasks because the concerned bodies rushed to a meeting only after a conflict broke out. For instance, the Ministry of Peace discussed with community elders and religious fathers on January 25, 2019, due to the eruption of conflict in the second week of January. Participants in the meeting agreed that blood shading among brotherhood communities (Afar and Issa) must be stopped immediately. One of the Issa elders who participated in the meeting passed the following message: "We the Issa and Afar people are Muslims, and conflict between Muslim communities is immoral. It is contrary to the rules of Alah. We have to call up on our community members to stop shading a single individual's blood from today on. "

Community elders and religious fathers who participated in the discussion agreed to organize a joint committee, to move down to the communities, open consecutive discussion forums with the community and to perform the following two important activities. First, the leadership has to create awareness for members of the community regarding the effects of conflict on their socio-economic life. Second, organizing consecutive peace forums

aimed at creating a foundation for enhancing a sense of brotherhood and unity among the Afar and Issa communities.

The Minister of State for Peace and Reconciliation has said that the conflict between the Afar and Issa ethnic groups will be resolved step by step by working hand in hand with the local community. He also asserted that contrabandists and other forces engaged in illegal practices have been playing a significant role in provoking conflicts between the two ethnic groups. First, peace will be restored, then the law will be respected, and then the focus of the government will be to eradicate poverty, which has been the long aspiration of the community. To that end, a joint committee was established, comprising of members from both sides, to void the possible occurrence of conflict in the future.

Peaceful way of life among the bordering communities of Afar and Issa has not been materialized despite peace resolution efforts. The three Kebeles in Afar Region inhabited by the Issa remained to be sources of conflict between Afar and Somali Regional States. According to one Issa community elder interviewed at Gedamaytu, on May 2, 2019, twelve people were killed and three others wounded by Afar Regional State special forces. Following this incident, the new government of Somali Regional State expressed its opposition to the integration of the three Kebeles into Afar Regional State.

The same idea was reiterated by an educated Somali elite as:

The three Kebeles (Adayitu, Gedamayitu, and Endufo) were illegally decided to be administrated under the Afar Regional State. These Kebeles were taken following the decisions of corrupted leaders and contrabandists who worked only to satisfy their personal interests. The Somali Regional State Cabinet decided to legally incorporate these Kebeles under the Somali Regional State administration. The cabinet denounced the agreement reached by the former presidents of the two regional states in December 2014, blaming it on the fact that the incorporation of the three Kebeles into the Afar Region had no constitutional basis( Interview,13 September 2019,Addis Ababa).

According to an Afar senior official, the Somalis inflicted heavy damage on Afar people on October 12, 2019. Since then, both sides accused each other of taking the initiative to the conflict. Following this incident, a meeting was organized which was chaired by the prime minister on October 18, 2019 in Addis Ababa. The presidents of the two regional states expressed their sorrow for the deaths that occurred. This agreement was televised by Fana TV on the above date. The president of Somalia Regional State explained that the leaders of the two regional states have to work in cooperation with the federal government to solve the problem. He also underscored that the leaders of the two regional states at all levels should work hard to bring lasting peace in the area. Afar and Issa Somalis living in the Afar region have been conducting meetings to find final solution to the conflict between the two ethnic groups. Many feared that this was just another example of ritual peacemaking without any substance, which didn't address the root causes of the conflict. On the other hand, the president of Afar Regional State asserted that they have to strengthen relations between Afar and Issa Somalis in order to resolve the problem.

A three-day peace conference was conducted at Adayitu Kebele in Mille Woreda, where participants discussed peace and reconciliation between Afar and Issa. Interviewees asserted that the conference was organized based on the unswerving interests of community elders, religious fathers, and federal and regional state leaders. This conference was televised by Fana TV on November 1, 2019. Participants of the conference discussed on

the role of political entrepreneurs in rousing conflicts between Afar and Issa. The president of Afar Regional State, Ato Awol Arba, explained about the conference as:

This is a historical conference because it was conducted based on the initiative of the people themselves. Conflicts in these areas have not been caused by the people themselves rather conflicts have been sponsored by individuals who want to destabilize the area. Conflicts have been motivated by contrabandists for political gain. In this conference, participants mentioned that they didn't want to be in conflict and condemned the involvement of external forces. The questions of the Issa residents in the designated towns are education for their children, supply of water service, and good governance. Therefore, the two regional states should work in cooperation to ensure the prevalence of peace and stability in the area, which in turn would help to address the demands of the people (Fana TV, November 1, 2019).

Three weeks after the Adaytu conference, a similar conference was conducted at Undufo Kebele in Gewane Woreda. Participants of the interview mentioned that contrabandists and other anti-peace forces have been instigating conflict to endanger the peace and unity of Afar and Issa just to satisfy their own self-interest. Conflicts have been occurring every week and every month between the two ethnic groups claiming the lives of several people and causing material destruction. At the end of the conference, the president of Afar Regional State, Ato Awol Arba, put the keystone in Adaytu Kebele to construct a boarding school for the Issa Somalis living in the Afar Region (on November 21, 2019, by Fana TV). Despite the successive peace conferences mentioned above, conflict between Afar and Issa communities broke out after a month. The experience showed that Afar and Issa Somalis repeatedly entered into conflict after several peace negotiations. The shared agreement among many respondents is that community elders, religious fathers, and regional leaders at different levels have to think one step ahead of the people to find lasting solution to conflicts and to ensure peace and stability in the area.

### **Afar-Amhara conflict in post-1991 Ethiopia: an overview**

#### *Causes and Consequences of Afar-Amhara Conflict*

Evidences showed that neighboring Afar and Amhara communities have lived in peace for centuries with sporadic disputes caused by customary competition over scarce resources (Yasin, 2010). Remembering, conflicts in the past, participants of the interview mentioned that cross-border ethnic killings as a cultural practice among the Afar and Amhara bordering communities for the sake of pride and fame was the other cause of conflict between the two ethnic groups beyond competition over resources. In this case, a person kills another person belonging to another ethnic group in order to gain fame among his ethnic group. This in turn maintains the cycle of revenge, which adversely affects the relationship among neighboring communities. In this regard, (Ibid) asserted that interest to be regarded as a hero within one's own society, competition to show ethnic supremacy, revenge for lost lives and properties, and wealth accumulation were factors aggravating the conflict between Afar and Amhara neighboring communities.

The introduction of ethno-regional administrative structure in Ethiopia since 1991 has changed the nature of conflict between Afar and Amhara neighboring communities. The Afar regional state shares more than 400 kilometers of boundary with the Amhara National Regional State, from Kobo Woreda of the North Wollo Administrative Zone in the north

to Ankober Woreda of the North Shewa Administrative Zone in the south. According to Yasin (2010), four out of ten zones in the Amhara region share boundaries with three out of five Zonal administrations in the Afar region. More than 130 Kebeles in 26 Woredas of both regional states share boundaries. The Amharas living in Kebeles sharing borders with Afar are pastoralist and agro-pastoralist communities. The Woredas of Amhara Regional State sharing borders with Afar Regional State are Kobo and Habru Woredas (North Wollo), Worebabo Woreda (South Wollo Zone), Jille Timuga, Bati and Kewet Woredas (Oromia Zone of Amhara Region).

People living along the border areas of Afar and Amhara Regional States have long historical social and economic interaction. For instance, when Afar entered with their cattle and camels into Raya Kobo (North Wollo), the local people welcomed them. Interviewees asserted that market exchange, lending, and borrowing relationships among communities living along border areas have never been interrupted. Similarly, the neighboring communities of Sodoma Kebele of Habru Woreda in the North Wollo Administrative Zone of the Amhara Region and Chifra Woreda in Zone One of the Afar Region have lived together for years, and these residents have marriage relations. However, trying to move into the neighboring grazing sites would automatically lead to deadliest fighting during shortage of pasture (Interview, Afar and Amhara community elders, Mersa and Semera, March, 2018; December 2019).

The frequency, magnitude, and characteristics of conflict along the border areas of Afar and Amhara Regional States seem to be escalating due to frequent armed disputes caused by territorial claims following the introduction of ethno-regional administrative structure in 1991 (Yasin, 2010). According to the participants of the interviews, conflict became the day-to-day experience in three out of the 13 Woredas of Amhara regional state sharing boundaries with Afar Regional State.

An interviewee from the Afar Regional State Peace and Security Administration Bureau explained that conflicts between the neighboring Woredas of Afar and Amhara regional states have been erupting every day, every week, and every month. The Amharas entered into Afar territory, drawn by the availability of vast arable land. This uncompromised interest has been the source of conflict between neighboring communities. Repeated conflicts between neighboring communities of the two regional states have several consequences, like loss of human life and injury, destruction of resources, robbery of property, and recycling of revenge (Interview, December 2018 and March 2019, Semera). The shared agreement among participants of the study was that the contested areas are pieces of agricultural land and residential areas. Mille Woreda (in Zone One of the Afar Region) entered into conflict with Bati Woreda of Oromia Zone of Amhara region over ownership rights of one Kebele called by Afar as Jeldu and Chachatu by the Oromo in Amhara region. Community elders on both sides mentioned that the clash between the two ethnic groups was severe in the first two-three years after the new federal restructuring of the country. According to one Afar elder, women had never been the target of cross-border traditional conflicts. Unlike this experience, in 2002, about thirty-two Afar women were killed by Amhara militia on their way home after attending a market in the Amhara region. This shows the changing nature of conflict in post federal Ethiopia.

Community elders mentioned that most of the Woredas of western Afar were under the administration of the former Wollo Province. Ethnic Conflict between Afar and Amhara communities living along the border intensified after the adoption of ethnic federalism in

Ethiopia. Sporadic conflicts have resulted in the loss of human life, theft of animals, displacement of people, and interruption of social interaction as well as problem of ensuring the rule of law in the area. Interviewees and focus group discussants explained that conflicts between the two neighboring communities become more intense since the beginning of 2017. They mentioned that the July 2017 conflict lasted for about three days and 12 people were killed on both sides. They added that the loss of human life and displacement of people has been increasing from time to time and lasting solution to conflicts not yet found. In the words of one community elder from Sodoma Kebele:

The peace committee of Chifra Woreda and Sodoma Kebele has negotiated several times, but neighboring communities soon entered into conflict again. The main cause of the current conflict is the question of ownership rights to a place called Jara. Both sides claimed that Jara belongs to them. The inability to find lasting solution has contributed to the sustenance of the problem (Interview, January 12, 2018, Meressa).

Local administrators and community elders were trying to resolve the July conflict, but they soon entered into a new conflict in September 2017, and the security situation around Jara became very tense. This conflict started on 12 September 2017 and lasted for three days. According to interviewees, two farmers from Habru Woreda in Kebele 23, and another from Direluka village in Kebele 24, were killed by Afar gunmen on the 12th and 14th of September, respectively. As revenge, Amhara farmers moved into Afar villages where four Afar were wounded in a fire exchange, but how many Afar were killed is not known (Interview, February 2018, Sodoma).

Another interviewee explained that the current Chifra Woreda of the Afar region was part of Habru Woreda in Wollo province during the military regime. Following the administrative restructuring of the country in 1991, Chifra became part of Afar Regional State. The Amharas along the border area still feel that Chifra belongs to them. This territorial claim has been the source of repeated conflicts between the two ethnic groups living along border areas. He underscored that conflict has been significantly affecting the relationship between neighboring Afar and Amhara communities. For example, unlike in the past, Amharas have stopped attending the market in Chifra, a town in the Afar region, out of fear of retaliation. Similarly, the movement of Afar into Amhara Woredas and Kebeles has been restricted.

#### *Recent Efforts of Resolving Amhara-Afar Conflict*

Public conferences and discussions forums have been organized among Afar and Amhara regional state leaders with the intent of avoiding conflicts along the border areas. For instance, according to Amhara Mass Media, Afar and Amhara regions' Regional Councils and neighboring Woredas' People to People Peace Conference were held in Woldia town (North Wollo) on 14 March 2019. In this conference, more than 800 people participated, including regional state presidents, members of regional state councils, representatives of neighboring Woredas' administrators, security forces, community elders, religious fathers, and representatives of local communities (Amhara Mass Media Agency, March 2019).

At the Woldia conference, a paper entitled "The Relationship between Amhara and Afar Peoples, Values as well as Directions on Possible Solutions to Conflicts" was presented. Participants at the conference identified the following six main causes of conflicts between Afar and Amhara neighboring communities: First, cross boundary use of arable and grazing land. Amhara pastoralists and agro-pastoralists want to use the vast arable and pasture land

of Afar Woredas and Kebeles due to shortage of arable and pasture land on the part of Amharas. The Afar also used to send their animals to Amhara Woredas like Raya Kobo and Habru during times of natural disasters like draught. Second, territorial claims because Amharas still considered Chifra Woreda as part of Amhara regional state although it is under Afar Regional State following the restructuring constituent units in federal Ethiopia. Third, culture of killing and revenge, if an Afar killed a person belonging to the Amhara ethnic group, the families and relatives of the deceased will take revenge by killing the murderer or his family and close relatives. This vicious circle of conflict has been adversely affecting the relationship between these neighboring communities. Fourth, labeling clashes between individuals as ethnic conflict which as a result conflicts between individuals belonging to the two ethnic groups have been converted into ethnic conflicts. Fifth, the role of ethnic conflict entrepreneurs (individuals who have been deliberately disrupting the long historical brotherhood relations and blood ties among neighboring Afar and Amhara communities); and Sixth, lack of commitment on the part of leaders (administrators) at different levels, illegal human traffickers, contraband traders, and individuals engaged in illegal arms trafficking.

Participants of this conference mentioned that discussing the causes of conflicts could not help to solve the problem unless all the concerned bodies took tangible measures. In this regard, one participant asserted:

Discussing about the problem without taking measures against those who have been causing conflicts between the two ethnic groups will not help to avoid the problem. Who is guilty has to be made clear (either Afar or Amharas) and regional governments need to have firm stand to take measures on ethnic entrepreneurs. Moreover, we have to give our ears to elderly people, community leaders, and fathers of peace if we don't want to see people die of conflicts sustained among neighboring communities.

Another Afar-Amhara security forum was organized in Kombolcha Town (South Wollo Zone) on 19 September 2019. Regional state presidents, community elders, representatives of local administrators and commanders of the North-Eastern Command have participated in this forum. The shared agreement among participants was that conflicts between the two ethnic groups have several adverse effects. According to the evaluation made by participants, the South Wollo and North Shewa Zonal administrations have shown improvement in terms of both reducing the rate of occurring and resolving conflicts. But Habru Woreda of the North Wollo Zone has a weakness in resolving its conflict with Chifra Woreda of the Afar region. They also asserted that the Woreda and Kebele administrations have to work in close cooperation with the security organs to ensure peace and security along the border areas. Moreover, as part of avoiding conflicts both regional state governments have to handover criminals, presenting them before the law to ensure the respect of the law (Amhara Mass Media Agency, September 2019).

The various conferences and discussions held so far did not help to avoid the ongoing conflicts between Afar and Amhara ethnic groups. In order to avoid the adverse effects of conflict and find lasting solutions another peace conference was organized at Woldia Town on 12 November 2019. The researcher has participated in this conference and had the opportunity to hear who said what during the discussion. In the opening statement of the conference, the Head of the Office of Woldia Town Amhara Democratic Party underscored that frequent conflicts have been disrupting the peaceful way of life and free movement of people between neighboring Woredas and Kebeles in Afar and Amhara regional states. He

asserted that, unlike the past, in recent years, Afar have not been entering into the towns in North Wollo Administrative Zone like Woldia, Kobo, and Mersa. He expressed his wish that the conference would help to identify the main causes of conflicts and to create favorable conditions for peaceful co-existence among neighboring communities. This sentiment was voiced by an Afar participant of the conference as:

We knew Woldia as our home and it was our second town. Our parents attended their education in Woldia, and we sent our children to school in Woldia. Many Afar have married wives from here, live and eat together with Amharas. There are boys and daughters born to Amhara mothers and Afar fathers, which indicated the existence of a healthy relationship between the two ethnic groups. But situations have been completely changed in recent years. I hope today's discussion will enable us to identify the political entrepreneurs who have been exacerbating conflicts for their own self-interest and lay the foundation to bring lasting solution to the conflict.

The shared agreement among participants of the conference was that lack of commitment and integrity on the part of Zonal, Woreda, and Kebele leaders on both sides, have contributed to the perpetuation of conflicts among people living in bordering areas of the two regional states. In this regard, the North Wollo Zone Administrator argued that leadership problem was the main cause behind the conflict between Afar and Amhara neighboring communities. He further elaborated that Woreda and Kebele officials have been exacerbating conflicts instead of being part of the solution. He urged that administrators have to be the vanguard in creating stability in their respective areas, working hard for the prevalence of peace and ensuring the security of all lines (roads) connecting the various towns of the North Wollo Zone with the Afar region.

One of the Afar participants underscored that community members would not have been involved in conflicts had they been properly led by administrators at different levels of regional state governments. He further mentioned that leaders had to create awareness among the people regarding the adverse effects of conflict. He concluded that the Woreda leaders of the two neighboring communities have to settle their differences first to find lasting solutions to the conflicts between the neighboring communities. This sentiment was voiced by a senior military officer from Northern Command, who attended the conference as:

Unnecessary scarifies were paid due to lack of commitment and absence of proper follow-up on the part of the leadership at different levels. In particular, the leadership of Chifra, Worebabo, and Habru Woredas should work hard to mitigate or at least minimize the effects of conflicts occurring in their respective areas. The community can profit only when we ensure our security and cooperate against our common enemies, poverty and backwardness.

The other main cause of the escalation of conflicts between neighboring Afar and Amhara communities was the weakening of traditional methods of conflict resolution. Participants of the conference underscored that intervention of political leadership at different levels of government has been undermining the role of community elders and religious fathers in resolving conflicts. For instance, one participant mentioned that communities have encountered problems because of the weakening of the traditional conflict resolution mechanisms which were effective for centuries. As a result, recurrent conflicts that were considered minor in the past are now getting harsher, causing loss of human life and

destruction of material properties. An elderly Afar further strengthened the above idea when he stated:

In the past, community elders were able to get robbed/rustled cattle back within few days through discussion. When a person was killed from one side, the elders could stop further killing through reconciliation. But today, killing has increased more than ever before. The involvement of the political leadership has exacerbated instead of reduced the occurrence of conflicts.

Discussants of the conference call for the practical implementation of the agreements reached. For instance, in the words of an elderly Afar participant:

We are currently debating in a pleasant setting (the hall), but people are dying there. We might get people killed when we return back to our homes. Therefore, what matters is not the issue we have discussed in this conference hall. Rather it is our commitment to put what we have agreed upon here into practice and make use of it for development and prosperity by bringing lasting peace among people living in border areas.

One of the interviewee explained that coordination among the stakeholders is very important to bring criminals before the law and to avoid the escalation of conflicts. In the same fashion, an Afar participant explained that they have to focus on their future peace and forget their memories of past conflicts. They suggested that people-to-people relationships have to be strengthened; ethnic entrepreneurs have to be identified and brought before the court if lasting solution is needed to end conflicts between the two ethnic groups. Seven months after the Woldia Conference, another peace conference was conducted in Dessie Town on 26 June 2020. Higher leaders from the Afar and Amhara regional states met to discuss on the ongoing border conflicts. Discussants asserted that the governments of the two regional states have to follow up and stop the actions of those political entrepreneurs who have been trying to instigate conflicts that have been causing loss of human life and destruction of properties (Amhara Mass Media, June 26, 2020).

Conflict resolution efforts made so far have been unable to bring lasting solutions. For instance, the Afar gunmen burned villages in places called Humnanu and Borena, in the Oromia Zone of the Amhara Region on 12 December 2020. According to one interviewee, this conflict has caused serious damage to human life and property. He further asserted that the current conflict is more severe than the previous conflicts. This conflict is different from past conflicts because, first, heavy weapons were employed in the fighting, and second, the fighting was conducted in a tactful manner.

## **Conclusion and recommendations**

### *Conclusion*

The objective of this paper was to investigate the impact of inter-ethnic conflict on the socio-economic development of Afar Regional State in Ethiopia. The study conclude that cross-boundary competition over scarce resources have been the norm between Afar and its neighboring Issa Somalis and Amhara pastoralist communities. Attempts of resolving conflicts remained unsuccessful across regimes. The restructuring of regions along ethnic lines following the adoption of federalism in Ethiopia has changed the resource-based conflicts into territorial conflict among neighboring ethnic groups. The recurrent Afar-Issa conflicts had caused the loss of great number of people on both sides, displacement of many thousands of pastoralists and disruption of the day-to-day activities of people living



in conflict-ridden areas. The conflict has significantly affected the traditional mobility of pastoralists denying them access to alternative grazing lands. These conflicts remained unsolved to date because authorities of the federal government and regional state lacked the will and commitment to thoroughly examine the main cause behind repeated conflicts and find out an appropriate solution which could be accepted by the parties to the conflict. Interethnic conflicts are still going on adversely affecting the socio-economic development of Afar Regional State.

### *Recommendations*

Based on the findings of the research the following recommendations are recommended: The federal government needs to have genuine concern, commitment and wholeheartedly support regional states in the process of finding lasting solutions to conflicts among them. The leadership of Afar, Amhara and Somali regional states should create awareness to members of communities regarding the adverse effects of conflicts on their own living conditions in particular and the development of their respective regional states. The leadership Afar, Amhara and Somali regional states should use the traditional conflict resolution mechanisms as an important means instead of relying only on the modern conflict management. The leadership of Afar, Amhara and Somali regional states should give appropriate support to the Joint Peace Committees to maximize their role in resolving conflicts.

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## **FINANCIAL EDUCATION AS A TOOL FOR FINANCIAL DEVELOPMENT**

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**Abstract:** *Financial education has become increasingly important as a tool for promoting financial development around the world. This article explores the relationship between financial education and financial development, highlighting the benefits of financial education for individuals, households, and entire economies. The article examines the role of financial education in improving financial decision-making, promoting financial inclusion, and enhancing economic growth. It also discusses various approaches to financial education, including formal education programs, workplace training, and community-based initiatives. Finally, the article emphasizes the need for continued investment in financial education as a key component of financial development strategies, particularly in the context of ongoing technological advancements and changing economic conditions. We will demonstrate the role of financial education in economic development, as well as in diversifying the range of financial products and services. In this article, we will also refer to financial education as a tool for consumer protection, supporting and strengthening innovation, as well as increasing access to financial products and services. Moreover, financial education is not an easy process to implement, as there are multiple challenges involved. There are no standardized approaches, but good practices observed in certain countries can serve as a starting point for the development and implementation of financial education programs.*

**Keywords:** *financial education, development, financial markets, financial educational programs*

### **Financial education as a development tool**

Financial education plays an important role in the development of financial markets and the diversification of financial products and services. It helps individuals understand the basic concepts of finance and investments, manage their finances effectively, and make informed decisions about financial products and services (Annamaria Lusardi&Olivia S. Mitchell, 2014). The aim of this article is to explore the role of financial education in the development of financial markets and the diversification of financial products and services. Financial education is important for individuals to manage their finances effectively and make informed decisions about financial products and services. It helps individuals understand basic financial concepts, such as budgeting, saving, investing, and managing debt. With this knowledge, individuals can make informed decisions about their finances, such as choosing the right investment products and managing their debt effectively. In addition, financial education can also help individuals avoid financial scams and frauds. Many individuals fall prey to scams and frauds due to lack of financial education. By educating individuals about financial scams and frauds, they can avoid these scams and

protect their finances. Financial education plays an important role in both economic development, financial markets, and the diversification of products and services. By increasing the level of financial knowledge, the population can absorb a wider range of financial products and services. In this article, we will show how financial education can contribute to achieving these two perspectives.

In the same context, financial education has several benefits, both for individuals and society as a whole. For individuals, financial education can help them achieve their financial goals, such as saving for retirement or buying a home. It can also help individuals make informed decisions about financial products and services, such as credit cards, loans, and insurance policies. Financial education also has benefits for society as a whole. It can help reduce poverty and inequality by empowering individuals to make informed decisions about their finances. It can also help reduce financial instability by promoting responsible investing and lending practices.

### **Role of Financial Education in the Development of Financial Markets**

Financial education plays a crucial role in the development of financial markets. It helps individuals understand the functioning of financial markets and the various financial products and services available. With this knowledge, individuals can make informed decisions about investing in financial markets and choose the right financial products and services. Financial education also helps individuals to understand the risks associated with investing in financial markets. This knowledge helps individuals make informed decisions about investing in financial markets and choose the right investment products.

Although the specialized literature is still very young, we can say that financial education can contribute to the development of financial markets in several ways:

#### *Increased Participation*

Financial education can help individuals understand financial products and services, enabling them to make informed decisions about investing and saving. This, in turn, can increase participation in financial markets, leading to their growth and development. Financial education can increase participation in financial markets by providing individuals with the necessary knowledge and skills to understand financial products and services. This can lead to increased investment and saving, which can drive the growth and development of financial markets.

#### *Better Investor Protection*

Financial education can also help individuals understand the risks associated with financial investments, leading to better investor protection. This can increase investor confidence in financial markets and attract more investment.

#### *Improved Financial Literacy*

By improving financial literacy, financial education can help individuals make better financial decisions, which can lead to improved financial outcomes. This can contribute to the growth and development of financial markets.

#### *Greater Innovation*

Financial education can also promote innovation in financial markets by encouraging individuals to think creatively about financial products and services. This can lead to the development of new and innovative financial products and services that meet the needs of consumers.

### *Improved Market Efficiency*

Financial education can improve market efficiency by providing individuals with the knowledge and skills necessary to analyze financial markets and make informed investment decisions. This can lead to more efficient allocation of capital and improved market performance.

### *Increased Financial Stability*

Financial education can contribute to increased financial stability by helping individuals understand the importance of diversification and risk management in their financial portfolios. This can help mitigate the impact of financial shocks and reduce the likelihood of financial crises.

### *Enhanced Consumer Protection*

Financial education can enhance consumer protection by empowering individuals to make informed decisions about financial products and services. This can help prevent consumer abuse and reduce the likelihood of financial fraud and scams. Financial education can improve consumer protection in multiple ways. By understanding their rights and responsibilities as consumers of financial products and services, individuals can make informed decisions and protect themselves from potential scams, frauds, and abusive practices. Moreover, financial education can provide individuals with the knowledge and skills needed to identify and report financial misconduct, thus contributing to the overall transparency and accountability of financial markets. Additionally, financial education can promote responsible borrowing and lending behavior, reducing the risk of over-indebtedness and financial distress among consumers. Finally, financial education can raise awareness about the importance of financial planning and risk management, helping individuals to prepare for unexpected events and protect themselves and their families from financial shocks.

### *Improved Economic Development*

Financial education can contribute to overall economic development by increasing financial inclusion and promoting entrepreneurship. By providing individuals with the knowledge and skills necessary to start and grow businesses, financial education can help create jobs and drive economic growth. In the same line, financial education can play an important role in the economic development of a country by increasing the financial knowledge level of the population, the capacity for financial planning and decision-making with regard to expenses and savings can be improved. This can lead to better money management and greater financial stability, both for individuals and enterprises. Financial knowledge can help people better understand the advantages and risks of different financial products and make informed decisions about investments or savings. This can lead to an increase in demand for financial products and services, as well as diversification of them. On the other hand, financial education can also contribute to the diversification of financial products and services. This objective, like the one analyzed earlier, is strongly influenced by people's level of financial knowledge. The higher the level of financial knowledge, the faster these objectives can be achieved.

## **Role of Financial Education in Diversification of Financial Products and Services**

Financial education also plays an important role in the diversification of financial products and services. By educating individuals about the various financial products and services

available, they can make informed decisions about choosing the right financial products and services. Financial education also helps individuals understand the risks associated with investing in different financial products and services. With this knowledge, individuals can make informed decisions about diversifying their investments across different financial products and services.

It is clear that the two objectives - the development of financial markets and the diversification of the range of financial products and services - are interdependent and have financial education as a common vector. The level of knowledge and understanding of personal finance and the financial market can have a significant impact on these objectives, and financial education can be a powerful tool to achieve them. By increasing the level of financial knowledge, we can enhance participation and trust in financial markets, as well as the diversity of available financial products and services, leading to a healthier and more equitable overall economic growth.

In the following, we will present some of the ways in which financial education can contribute to the diversification of the range of financial products and services. It is important to note that there can be no product diversification without identifying potential consumers. If products cannot be understood, or certain needs are not identified, companies will not launch diversified products on the market, as there is no real demand for such products.

#### *Encouraging Innovation*

Financial education can encourage individuals to think creatively about financial products and services, leading to the development of new and innovative products that meet the needs of consumers. Also, financial education can help individuals and businesses develop the skills needed to take advantage of new financial technologies and services. This can create a more educated workforce that is better equipped to participate in the financial system and take advantage of new opportunities.

#### *Increasing Demand*

By increasing financial literacy, financial education can create more demand for financial products and services, leading to greater diversity of products and services. Moreover, financial education can increase trust and confidence in the financial system. As individuals become more knowledgeable about financial products and services, they may be more willing to participate in the financial system and invest in financial products. This can help to stimulate demand for financial products and services, leading to a healthier and more vibrant financial sector.

#### *Improving Access*

Financial education can help individuals understand how to access and use a wider range of financial products and services, leading to greater availability and diversity of products and services. Education can play a crucial role in increasing access to financial services. With better financial knowledge, individuals are more likely to understand the benefits of having access to financial services such as banking, insurance, and credit. They will be able to make informed decisions about choosing and using financial products that meet their specific needs.

Furthermore, financial education can help individuals build credit, which can open up more opportunities for accessing financial services. By understanding how credit works and how to manage it responsibly, individuals can establish a good credit history, which can help them qualify for loans and credit cards with lower interest rates.

### *Reducing Barriers*

Financial education can help reduce barriers to entry for new financial products and services, leading to greater competition and innovation in the financial industry. Financial education can reduce barriers for new financial products and services in several ways. Firstly, it can increase consumer awareness and understanding of financial products and services, which can lead to greater demand for new and innovative financial products. Consumers who have a better understanding of financial products are more likely to seek out new options and are less intimidated by complex financial offerings.

Secondly, financial education can help consumers better understand their financial needs and goals, which can lead to the creation of new products and services tailored to those needs. As consumers become more knowledgeable about their own finances, they are better equipped to communicate their needs to financial institutions, which can in turn develop new products and services that meet those needs.

In the end, financial education can also help consumers become more financially literate, which can help them make better financial decisions and reduce the risk of financial fraud or abuse, as previously shown. This can create a more trustworthy financial system and increase consumer confidence in trying out new financial products and services.

### **Approaches and Challenges in Implementing Financial Education Programs**

Despite the importance of financial education, there are several challenges in implementing effective financial education programs. One of the major challenges is the lack of financial education programs in many countries. Many individuals do not have access to financial education programs, which limits their knowledge about financial products and services. Implementing financial education programs is crucial for improving the financial literacy and well-being of individuals and communities. However, there are various approaches and challenges associated with the implementation of such programs. One approach is to integrate financial education into existing curricula in schools, universities, and vocational training programs. This helps to ensure that financial education is widely accessible and reaches a diverse range of individuals. Another approach is to provide financial education through community-based organizations, financial institutions, and online platforms. However, there are several challenges that hinder the effective implementation of financial education programs.

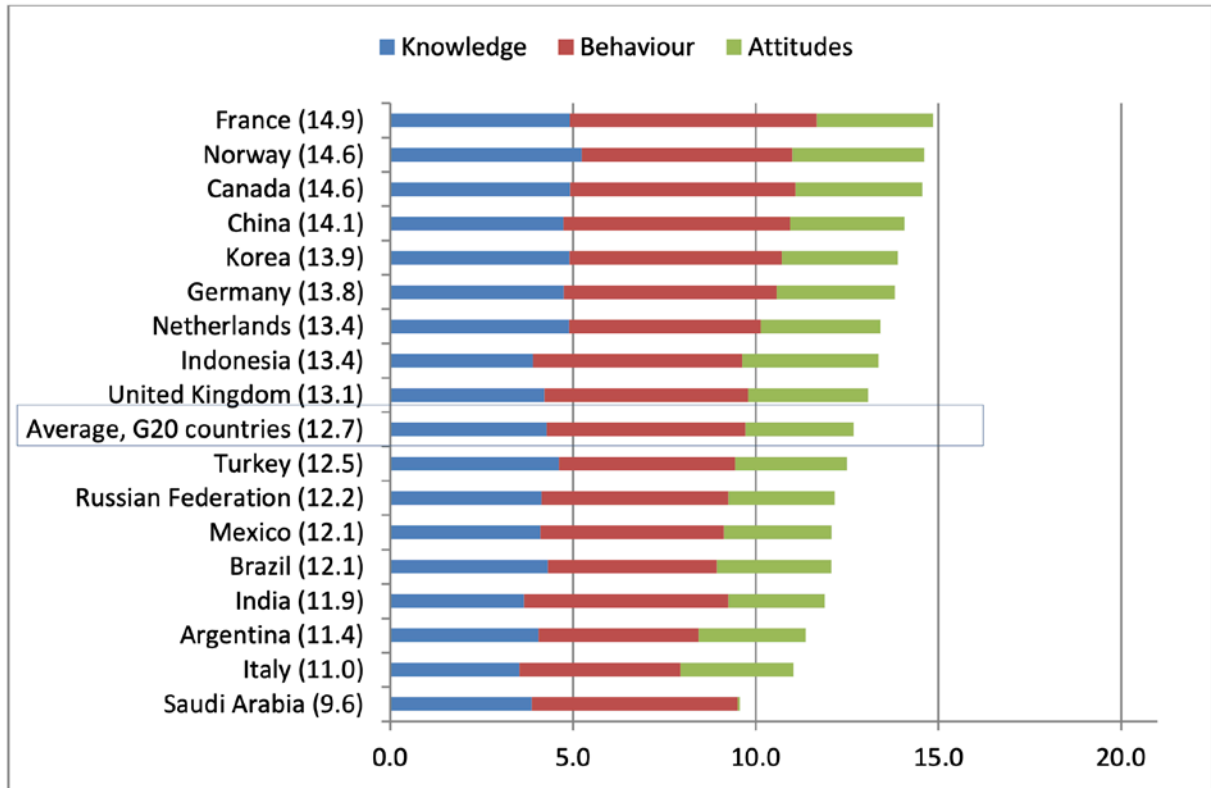
OECD consistently measures the level of financial education, which is considered extremely important in the process of economic development. The OECD questionnaire focuses on three important characteristics: financial knowledge, attitudes, and behaviors. Furthermore, financial education is also a tool for financial stability, being a constant concern for countries especially after the financial crisis of 2008. Moreover, OECD collaborates with governments and other organizations to develop and promote quality financial education programs and resources, including teaching materials and teacher

training programs. These can be used in schools, universities, community centers, and other educational environments.

According to a report by the S&P Global FinLit Survey in 2020, the global financial literacy rate was 57%, with significant variation across different regions of the world and according to a report by the World Bank in 2021, women worldwide have a lower level of financial literacy than men, with a significant discrepancy in some regions. Also, we refer to the S&P Global FinLit Survey 2020 report, which showed a global financial literacy rate of 57%, with significant variation across different regions of the world. Statistics show that intense financial education programs are needed in all countries to achieve the goals that we have addressed in this article. Financial education programs must be constant and constantly adapted to the reality and economic dynamics, taking into account factors such as financial innovation and digitization.

Through these efforts, OECD contributes to the development of a financial culture and increases the level of financial awareness and responsibility among the population and businesses. These can lead to better financial planning, efficient management of financial resources, and greater consumer protection, which can contribute to sustainable economic development and financial stability in countries.

**Figure 1 Financial knowledge, attitudes and behaviour, OECD survey Adult financial literacy in G20 countries, 2017**



Source: www.oecd.org

There are several types of financial education programs available, including classroom-based programs, online courses, and financial coaching. Classroom-based programs are



typically offered by schools or community organizations and provide structured learning environments. Online courses are self-paced and can be accessed from anywhere with an internet connection. Financial coaching involves one-on-one sessions with a financial expert who can provide personalized advice and guidance. Financial education programs should be designed to meet the needs of the target audience. For example, financial education programs for young adults should focus on basic financial concepts, such as budgeting and saving, while programs for retirees should focus on retirement planning and estate planning. Financial education programs should also be evaluated for their effectiveness. Evaluation can help identify areas of improvement and ensure that the program is meeting its intended goals. Some common evaluation metrics include changes in financial behaviors, changes in financial knowledge, and participant satisfaction.

One of the major challenges is the lack of standardized financial education curriculum, which makes it difficult to assess the effectiveness of different programs. Additionally, there is a need for more research on the most effective ways to teach financial literacy and the best practices for program implementation. Another challenge is the lack of funding for financial education programs. Many organizations and institutions struggle to secure adequate funding to implement and sustain these programs, especially in low-income communities. There is a challenge in reaching marginalized populations who may have limited access to financial education due to various factors, including language barriers, cultural differences, and lack of technology infrastructure.

Implementing effective financial education programs requires a comprehensive approach that addresses the challenges associated with program implementation and ensures that financial education is accessible to all individuals, regardless of their background or circumstances. Financial education programs aim to increase financial literacy and improve financial decision-making skills among individuals and communities. However, implementing such programs can be challenging due to various factors such as limited resources, lack of awareness, and cultural barriers.

One approach to implementing financial education programs is through collaboration between government, non-profit organizations, and the private sector. This collaboration can bring together diverse expertise, resources, and perspectives, which can lead to more effective program design and implementation. For example, financial education programs can be integrated into school curriculums, workplace training, and community outreach programs to reach a broader audience. Another approach is to tailor financial education programs to specific target audiences. For instance, programs aimed at senior citizens may focus on retirement planning and protecting against financial fraud, while programs for young adults may focus on budgeting, debt management, and credit scores. This approach ensures that the programs are relevant and meet the specific needs of the target audience.

However, implementing financial education programs also presents challenges. One of the challenges is the lack of funding and resources, particularly in developing countries. This makes it difficult to reach a wide audience and provide sustained support for financial education programs. Additionally, cultural barriers may hinder the adoption of financial education programs in some communities. For example, in some cultures, discussing money and finances is considered taboo and can be a sensitive topic. Another drive is the effectiveness of financial education programs. While these programs aim to improve financial literacy, research has shown that financial education alone may not be sufficient to change financial behavior. Other factors such as financial access and financial products

may also influence financial behavior. Thus, financial education programs need to be combined with other interventions such as financial coaching, incentives, and access to financial products to have a more significant impact on financial behavior.

As a general conclusion, financial education programs can be effective in improving financial literacy and decision-making skills among individuals and communities. The implementation of these programs presents challenges such as limited funding, cultural barriers, and the effectiveness of the programs. Addressing these challenges requires a collaborative effort between various stakeholders and the use of tailored approaches to reach specific target audiences. Governments and financial institutions can play a crucial role in promoting financial education. Governments can provide funding for financial education programs and develop policies that support financial education. For example, some governments require schools to offer financial education courses or require financial institutions to provide financial education materials to their customers. Financial institutions can also play a role in promoting financial education. They can develop financial education materials and offer financial education programs to their customers. In addition, financial institutions can incorporate financial education into their products and services, such as offering retirement planning tools or debt management programs.

## **Conclusions**

Financial education plays an important role in the development of financial markets and the diversification of financial products and services. It helps individuals understand basic financial concepts, manage their finances effectively, and make informed decisions about financial products and services. Despite the challenges in implementing effective financial education programs, it is important for governments and financial institutions to invest in financial education programs to ensure that individuals have access to the knowledge they need to manage their finances effectively. Financial education can also help to create a more equitable and fair financial system by increasing access to financial services for underserved populations, and by empowering consumers to make informed decisions and protect themselves from fraudulent practices.

However, there are several challenges to implementing effective financial education programs. These include issues related to funding and resource allocation, as well as the need for cultural and linguistic sensitivity to ensure that financial education is accessible and relevant to all individuals and communities. To overcome these challenges, it is important to develop comprehensive financial education programs that are tailored to the needs of specific communities and that engage a wide range of stakeholders, including government agencies, non-profit organizations, and financial institutions. By working together, these stakeholders can help to create a more inclusive and equitable financial system that benefits all members of society.

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## **OFFICE TECHNOLOGY MANAGEMENT'S INFLUENCE ON BUSINESS EDUCATION PROGRAMS IN NIGERIAN UNIVERSITIES**

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**Abstract:** *This study investigates the impact of office technology management on university business education programs. Business education is an essential component of Vocational Education in Nigeria's tertiary education system. Reforms in the nation's education delivery have resulted in a jumble of programs requiring the use of new technologies. As a result, the impact of office technologies on business education is a major theme. When the influence is positive, it indicates that the goal of integration is worthwhile; when it is negative, it indicates that there is a serious problem that necessitates some action. Because education is now centered on office technologies all over the world, business education cannot afford to ignore the significance of utilizing office technologies. As a result of their findings, the researchers concluded that a worthwhile business education curriculum should provide learning experiences that will equip lecturers and staff with the necessary competencies in the use of office technology, and students should be trained to meet the market demands of various occupations. It was suggested that business educators give their students an experiential foundation so that they can develop the necessary competencies.*

**Keywords:** *office technology, business education, management, curriculum*

### **Introduction**

Business education is a component of vocational technical education programs that prepares students for business careers as well as being knowledgeable consumers of economic goods and services. Business education prepares students for careers as workers in industries, civil servants, and business owners by providing them with the competencies, skills, knowledge, understanding, and attitudes required. It is work-focused, skill-based, results-oriented, and technology-based (Ugwoke, 2011). The only constant factor in life is change. This exemplifies the dynamism of a competitive business environment. Education is regarded as a model document for preparing citizens to play effective roles in society. Business education is one type of education that prepares students to adapt to a changing work environment. According to the American Vocational Association (AVA) in Osuala (2009), business education is a two-part instructional program: (a) Office Education; a vocational education program for office careers that includes initial, refresher, and upgrading education that leads to employability and advancement in office occupation; and (b) General Business Education; a program that provides students with information and competencies needed by all in managing personal and business affairs and using business world services.

To remain relevant in meeting the needs of individuals and society, Business Education programs must embrace current trends (new technologies) in academic and economic demands of society. Tertiary institutions, also known as higher education in Nigeria, are

educational institutions that provide education to individuals after they have completed their primary or secondary schooling. Thus, tertiary business education is provided in universities, colleges of various disciplines, polytechnics and monotechnics, and special colleges (Koko, 2010). Some of these postsecondary institutions offer a diverse range of business education programs. Accounting education and Office Technology and Management are the two options available in colleges of education (OTM). Business education is available at the polytechnic as Office Technology and Management (OTM). While in universities, the business education options available demonstrate the diversity of operation in different universities that provide business education.

As a result, the design of business education curriculum in universities is dependent on institutional goals and objectives, as well as the background or affiliation of curriculum designers, or depending on the university involved nomenclature (Koko, 2010). Accounting Education, Office Education (Secretarial Education), Management Education, Marketing/Distributive Education, and Computer Education are among the options. As a result, business education programs do not simply assume that business education should focus on the education of business course teachers; rather, business education includes elements of accountancy, business administration, marketing, finance, cooperative management, and secretarial administration (Okorie, 2001).

For tertiary institutions in Nigeria that offer business education programs to fulfill their mandates, the quality of the training provided to individuals completing one or more courses should be such that it provides adequate skills and information required in the real world. If business education is to serve the purpose of meeting the needs of learners and society, its curriculum should be reviewed on a regular basis to ensure that the quality of education provided is in line with societal demands. This curriculum review will incorporate new technologies that can assist in passing on the desired and required skills to the learner, making him/her employable and relevant in the ever-changing business environment. As a result, the purpose of this paper is to primarily discuss the impact of office technology management in university business education programs.

### **Business Education**

Business education is a branch of education that focuses on the study of topics in connected fields. It combines two fields of study that are primarily concerned with the art of shorthand writing, typewriting, accounting, business mathematics, secretarial work, and office and commercial procedures. Every person has the chance to expand their abilities, skills, and understanding of the various career opportunities thanks to the field of study. The unemployment rate is a significant macroeconomic issue in our economy. Because our educational system was general in character and did not address specific occupational needs, the majority of its graduates hunt for occupations that do not exist. Our national education policy de-emphasizes our liberal education system in favor of a utilitarian type of education in order to meet the needs of society. In response, beginning with junior secondary school, a Business Education program was implemented in our educational system, allowing for gradual skill development and competency.

Business education is crucial to the development and expansion of Nigeria's economy. It also gives information, skills, and competence for individuals to operate well in office occupations and also generate jobs for themselves and others. It enhances personal

attributes and strengthens the attitudes of persons that are important for adjustment to personal and employment conditions (Amoor & Udoh 2008). The nation's economy is still defined by a high proportion of unemployment and poverty despite federal government initiatives to address these problems in society. Therefore, the significance of a curriculum that will aid in reforming the business education program at Nigerian universities by producing people who will significantly advance the country's economic development cannot be overstated. The urgent need to make some changes to the Business Education program's curriculum in Nigerian universities is due to the unchecked rates of unemployment and poverty. This will ensure that students are not only exposed to a particular skill but also to creative thinking that is sufficient to start and operate a business, at least on a small scale. Integrating entrepreneurship courses into the Business Education program in Nigerian institutions is a wise decision and comes at the perfect time given that entrepreneurship education will give Business Education graduates additional skills, resources, and methodologies to turn their ideas into visible and viable businesses. The nation is currently experiencing an economic meltdown, which will in turn increase the rate of unemployment and poverty in the society. If done correctly, graduates won't have to wait in line for a paid job on the labor market; instead, they'll be able to generate jobs for both themselves and others. This will make a significant difference in lowering unemployment and poverty in the community.

It would be required to look at the definitions of business education from the past and current in order to be able to comprehend the idea of business education. This is as a result of how technology has altered how some concepts are defined. Therefore, it suggests that business education as a field of study needs to evolve. As a crucial component of education, business education is known as "functional utility education," giving its students the knowledge, abilities, and attitudes they need to succeed in any line of work. The following specialization options are available in business education:

1. Distribution and marketing,
2. Accounting,
3. Administrative or office.

When asked what business education is, Popham (1975) responded: "Business education is education to produce goods and services," as a business executive retorted. A radical retorted that it was a great way to make a lot of money. One teacher retorted that economic ideas are necessary for survival in a capitalist economy. According to another educator, learning the necessary skills to work in commerce or distribution. "Shorthand and typing," remarked a bystander. Popham's examination of the various perspectives on business education yielded the following results: A course in business education prepares students for employment and advancement in the business sector. It is also important because it prepares students to manage their own business affairs, make informed consumer decisions, and participate responsibly in society in a market-based economy. Nolan, Hayden, and Malsbary (1967) defined business education as "those business programs and courses that are frequently offered at the secondary school level." According to OC Osuala (1989), business education is a critical component of preparing young people for life and living. In 2004, Osuala described it as an educational program with two components: (1) Office education, a vocational program for office careers through initial, refresher, and upgrading education; and (2) General business education, a program to give students the knowledge and skills necessary for everyone to manage personal business affairs and use

business services. Regarding the definition of business education, Njoku (1997) states that it is the portion of educational instruction that helps people develop practical abilities for daily life. Njoku provided a different definition in 2006, describing an educational program as one that gives a person the practical and appropriate information, skills, attitudes, and values needed to function in the environment in which they find themselves. From the debate above, it is clear that as time passes, the definitions of business education vary. As a result, business education is dynamic.

Any worthwhile program must therefore evolve over time. Business instructors, on the other hand, have long acknowledged that change is a feature of life. The necessities of business have continuously shaped business curriculum from the typewriter to the transistor. Therefore, the ability of business education to adapt and stay up with the needs of its students is constantly crucial to its success and survival. Both the instructor and the pupil face difficulties as a result of these changes. To ensure successful programs in the future, the business educator must be prepared to adjust and handle these difficulties. If the curriculum of business programs across the nation is to continue to satisfy the demands of its students, business education must be a valuable and crucial part of the transformation agenda. From the definitions given above, it can be inferred that business education is both an education for and about business. It blends information that is academic and practical. In a similar spirit, it familiarizes the receiver with his nation's economic structure and gives him lifelong skills that will enable him to exercise sound judgment as a provider of goods and services, an employee, or a consumer of those products and services.

Business education focuses on the empowerment required to handle professional issues in a fast-paced business environment or society. It gives recipients the capacity to adapt to new developments in business and education, where the person is expected to demonstrate all the abilities learned throughout training. As a result, business education is designed to train and develop students so that they are exposed to the business world and can function as professionals. This opens up more opportunities to teach students skills that will help the economy of the society as a whole.

### **Office Technology**

Office technology is the term used to describe the use of networks, computer systems, and software for processing, distributing, and sharing information within an organization. An office is only a term for a formal workspace. An organization may run its operations effectively and gain a competitive advantage thanks to technology. Organizational office technology refers to the technical equipment and tools that organizations use to carry out routine duties including client management, payroll administration, sales analysis, order fulfillment, and communication. An organization needs staff in positions like computer networking, administrators, administrative assistants, and computer system analysts if it wants to use technology effectively. Because of the rapid advancement of technology, businesses must constantly update their office technology. Office technology refers to technology that can be used in an office setting. It may also include leveraged software, managed IT services, and other types of business technology support. Computers, paper shredders, printers, copiers, and phone systems are all included. The office technology of ten years from now can seem completely different because technology is continually

changing. Office technology has changed considerably throughout time and will likely continue to do so. At one point in time, it was equivalent to the stapler or the light bulb.

### **Management Techniques for Office Technologies in Business Education**

According to Nwoji (2012), technology can be defined as the application of the scientific method to everyday problems. However, from the standpoint of business education, technology is the application of the scientific method to address issues concerning the transfer of skills to students in order to meet society's evolving needs and demands. Despite the use of primitive technology in business education, there has been a drastic and significant shift in the approaches taken by the field to meet shifting social requirements. In Nwoji (2012), Olson argues that technology is a complex phenomenon in materials that man has developed to free himself from nature's constraints, but which, when unchecked, enslaves its own creator. This definition states that technology aids in advancing man's course within his environment, but that its use must be directed toward resolving man's issues in order to avoid being misleading.

Information and communication technology (ICT) is primarily the source of the technical advancements in business education. ICT is a driving force in society as a whole, so business education needs to restructure the knowledge and skills it imparts to learners and students in order to stay up with this development. One of the 21st-century developments is the "Electronic Office," or "e-office," which uses computers to complete all office tasks in a paperless environment. Based on this, the majority of business education departments in Nigeria's tertiary institutions are constructing ICT Centers, upgraded computer labs, and providing professional computer studies courses to students and graduates in order to produce people who can easily adapt in their constantly changing business environment. The typewriter is nearly obsolete as computers rapidly replace them.

Office technology management courses in business education are designed to prepare students for a variety of jobs in high-tech workplaces. Developing taxonomy of emerging technologies for business education is difficult due to their diversity and ongoing change in terms of their structures and functions. Different authors have used various typologies to classify new technology. McLoughlin and Clark (1997) proposed categorizing them as process and product technologies. Mazda (1993) claims that there are core and application technologies; new technologies can be divided into four categories, according to Haag, Cummings, and Mc Cubbrey (2002): new technologies for all senses, new technologies for the internet boom, new technologies for the wireless revolution, and new technologies for personal usage. The development of new technologies like the computer, word processor, internet, automated teller machines, reprographic machines, and micrographic machines is without a doubt. In addition to revolutionizing the business setting, accounting machines, contemporary telephonic technologies, including handset and multimedia, among others, have also changed how individuals go about their daily lives. One of the new technologies that is most readily apparent is the computer. Although new technologies are essential for delivering business education programs, the idea of curriculum review is of the utmost significance.

Modern technology is widely used and recognized as a necessary tool for any organization's efficient management. Modern technology's engagement with educational administration has served as an antidote or remedy for educational issues that would have been challenging to resolve with only human efforts. To enhance the teaching and learning of



business education courses, it is necessary for the instructor or students to take an introspective approach and prioritize innovation in the social system (Mashau & Andrisha, 2016). One of the most important contemporary forces influencing the world economy and causing swift social change is modern technology, which has fundamentally altered how people learn, interact, and conduct business. As a result, the nature of education, where and how learning takes place, and the roles of students and teachers in the learning process have all changed. According to Breuleux, Laferriere, and Lamon (2002), it is an improved scientific tool designed to facilitate labor. Multimedia projectors and interactive television are examples of modern technology in this context.

The term "interactive television" refers to learning that occurs through broadcast television. It enables remote, simple education from the teacher to trainees via live television. While the instructor(s) are in a broadcast studio, the learners watch them on a television monitor. Interaction is provided by one or more additional components. They can ask questions and/or make comments to the instructor using a variety of independent and combined techniques (Eme, 2015). An audio conferencing system is typically used for real-time communication. A computerized instructor console can also be linked to students in the broadcast studio via a response pad. Email and fax are two other asynchronous communication methods. Using a lens system, a multimedia projector processes a particular video input and displays the resulting image on a huge screen. In order to display the image, video projectors simulate a very strong light. The image is projected onto the screen by the projector after the video signal travels down a lengthy, specialized digitalized light that is projected onto thousands of internal reflections. The lessons delivered through this medium are vividly depicted in the learners' minds.

### **Office Technology Management and Universities' Business Education Programs**

Modern technical advancements have had a significant impact on contemporary business education programs (office technologies). As an example, the Department of Technical and Business Education at Delta State University, Abraka, offers the following new technologically based business education courses:

1. BED 202/212 Basic Word Processing/Format Typewriting I & II
2. BUS 114 Business Communications
3. GST 112 History and Philosophy of Science and Technology
4. CSC 200 Introductions to Computer
5. BED 304/314 Intermediate Word Processing I & II
6. BED 306 Office Information Systems
7. BED 311 Business Machine
8. BED 317 Secretarial Procedures
9. BED 405/415 Advanced Word Processing I & II
10. BUS 307/317 Data Processing and Management Information I & II

Source: Faculty Handbook, Department of Technical and Business Education, Delta State University, Abraka; Business Education Course Outline.

The following business education courses are available at Nnamdi Azikiwe University in Awka in response to recent technology advancements:

1. Basic Word Processing I & II GSE 101,
2. BED 144/245 appreciation of computers

3. CSE 101/102 Office Information System I & II
4. GSE 201 Computer Programming I & II
5. BED 211/212 Business Machines I
6. BED 334 Computer Programming
7. Office Information System III and IV,
8. ACC 317 Management Information ,
9. BED 345/346 Intermediate Word Processing I & II,
10. BED 415 Applied Word Processing.

Source: Faculty Handbook, Business Education Programme Course Outline, Department of Vocational and Adult Education, Nnamdi Azikiwe University, Awka.

Business education is offered at the Nigeria Certificate in Education (NCE) level. The new technologies were not given sufficient attention in the business education curriculum at the Nigeria Certificate in Education (NCE) level. New technologies have, however, had an impact on the current National Commission for Colleges of Education (NCCE) business education curriculum with the introduction of such courses as:

1. Computer Appreciation, BED 228,
2. Word Processing I & II, OTM 317/327,
3. BES/BEA 318 Information Technology/Computer Application.

In addition to the aforementioned new office management-based courses, the presence of new technologies was identified in numerous other current courses in the business education curriculum through the inclusion of related themes such as in:

1. BED 125 Office Practice includes, among other things, processing machines, electronic computers, and office supplies.
2. VTE/BED 220 Entrepreneurship,
3. VTE I: Problems and Issues in Business and Technology,
4. OTM/BEA 314: The impact of technology,
5. OTM 315 Secrecy-related tasks: Equipment used in telecommunications, such as phones, fax machines, and email, as well as office supplies like reprographics (National Commission for Colleges of Education (NCCE), 2008).

## **Conclusion**

Business education continues to be the cornerstone of human resource development because it delivers the knowledge, abilities, and understanding necessary to function in the business environment as either a consumer or a producer of the goods and services that business has to offer. The world is a community of nations. Virtually every aspect of human endeavor, including the teaching and learning processes, has undergone transformation in the current era of technological growth. A valuable business education curriculum should offer learning opportunities that will give the graduate the necessary skills for using contemporary office technologies. The economy is evolving, and this article has shown that business education students need to be prepared to fulfill the market demands of the many jobs. As a result of recent technological advancements, a sizable number of new business education courses have been developed. These courses are taught by universities, polytechnics, and colleges of education that provide business education programs. The following suggestions are given after identifying the impact of office technology management on business education programs at universities:

1. To effectively handle instructional tasks for business education, educational institution administrators must supply the necessary office technologies.
2. Business educators should be pushed to give their students the experiential foundation they need to develop the necessary knowledge, abilities, and attitudes to function in a technologically advanced society.
3. The curriculum for business education needs to be adaptable to accommodate these new technologically based courses.
4. Because society is dynamic and develops over time, curricula should change to reflect these changes as they relate to business education.
4. To accomplish the goal of the revised/adjusted tertiary business education curricula, adequate structures and technology should be offered.

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## **RURAL SOCIOLOGY AND DEVELOPMENT IN NIGERIA**

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**Abstract:** *This study investigated the impact of rural sociology on rural development in selected rural communities in Delta State, Nigeria's Ethiope East Local Government Area. A total of 400 rural dwellers were chosen at random from a population of 362,753 in Ethiope East, Delta State, Nigeria. Out of the 400 copies distributed, 287 were retrieved and analyzed, yielding a response rate of 71.75 percent. Statistical package for Social Sciences (SPSS) version 23 was used to analyze data collected using percentage, Spearman's Correlation, and linear regression analysis. The findings revealed a strong link between rural sociology and rural development. The study also found that rural sociology has a positive and statistically significant impact on rural development in Delta State, Nigeria's Ethiope east local government area. We concluded that rural sociology has a significant impact on rural development based on our findings. The study thus recommends, among other things, that the Nigerian government hire rural sociologists to help implement effective rural policies and programmemes. This will help to stimulate the development of rural communities in Nigeria.*

**Keywords:** *Rural sociology, rural development, rural communities, rural sociologists, rural policies*

### **Introduction**

The ability to see our own and others' lives as part of a larger social structure is essential to sociological imagination. The sociological imagination provides a fresh perspective on and solutions to common dilemmas or development challenges confronting rural communities. Rural sociology as an emancipatory empiricism, aimed at providing empirical foundation for more equitable social policy and better living conditions for rural dwellers. According to Du-Bois (1899, p.6) and Ndiaye (2017, p. 1), rural sociologists focused on improving the livelihoods of rural populations. Their activities range from the introduction and adoption of specific innovations to more broadly focused national government programmemes to stimulate agricultural productivity of small farmers through government and non-governmental organization communication, promotion, and analysis of policy implementation." There is an old adage that if you want to teach a subject to a student, you must first understand not only the subject but also the student. This concept is

applicable not only to classroom instruction, but also to managing and increasing production in industry and agriculture. Knowledge of and technical skill with scientific implements and practices are essential for increasing agricultural production and promoting rural community development, but understanding of the farmer - the rural man and his home and community of which he is a part - is also essential. This is the knowledge that rural sociology makes available (Chitambar, 2016).

Rural community development requires an understanding of rural people and their lives. Thus, effective implementation of improved practices is impossible without a strategy approach based on a thorough knowledge and understanding of the rural man, as well as the social and cultural context in which he operates. Rural sociology provides such knowledge and allows for the planning of a strategic approach for desired change; it allows for constant analysis of the rural situation and predicts possible outcomes within reasonable limits. As a result, rural sociology is the scientific study of rural dwellers in relation to the groups with which they interact. Rural sociologists can effectively promote change in Nigerian rural areas by influencing rural people's behavior (attitude, styles, and knowledge) because these changes are desirable in the interests of human, welfare, and national development. Poverty, depression, deprivation, limited economic opportunities, divorce, abuse, alcoholism, and other crises are common in Nigeria's rural areas, but these issues are sometimes exacerbated by the loss of a family business or farm. It is impossible to overstate the importance of rural sociology to rural and national development. This study examines the impact of rural sociology on rural development in the Ethiope East local government area of Delta State, Nigeria.

## **Review of Related Literature**

### *The Concept of Rural Sociology*

Rural sociology is a branch of sociology that studies life in small towns or rural communities. It is the scientific study of social arrangements and behavior among people who are separated from concentrated areas of activity. Rural settlement patterns are typically small in scale and low in density (Jain, 2014). The vast majority of people on the planet live in villages and rural areas, where they follow occupation and life patterns that differ from those found in cities. Their rural environment shapes and influences their behavior, way of life, and beliefs. Thus, rural sociology is a field of study that focuses on men who live in rural areas (Chitambar, 2016). As a result, rural sociology is defined as a specialized field of sociology that provides people with a better understanding of rural people's and rural society's behavior (Chitambar, 2016). Rural sociology, according to Olujide (2021), is a branch of sociology primarily concerned with the study of the social and cultural factors affecting the lives of those in rural and agrarian society. Rural sociology evolved from general sociology. Unlike general sociology, which is more interested in the development of social theories through basic research, rural sociology uses social knowledge appreciation to solve practical problems. It prioritizes experienced field research over theory development and social organization.

Rural sociology is defined in this study as a comprehensive study of rural social settings. It provides us with valuable knowledge about rural social phenomena and social problems, allowing us to better understand rural society and make recommendations for its overall progress and prosperity. As a result, rural sociology focuses on rural social relationships,

how those relationships influence people's behavior, and how societies, as a whole, change and develop as a result of those relationships. As a result, the importance of rural sociology, particularly in developing countries such as Nigeria, where rural life is still prevalent, cannot be overstated. These are some examples of the importance of rural sociology:

- i. It sheds light on the main characteristics and problems of rural areas, which are useful in dealing with rural issues fully.
- ii. It informs the government about the needs of rural people so that rural development programmes can be properly designed.
- iii. It provides feedback to the change agency on the progress made and the changes that are required in their change programmes.
- iv. It provides the change agent who has to interact with rural people with sociological knowledge on issues such as leadership, power, roles, more culture, family organization, and so on, which he/she needs to perform his/her work effectively.

Rural sociology, as a result, focuses on the systematic, scientific, and comprehensive study of the rural social organization, its structure, function, and objective development tendencies, in order to discover the laws of its development (Jain, 2014).

#### *Origin and Development of Rural Sociology*

People have always been interested in themselves and their interactions with others. Early philosophers made general observations about human relationships from daily life, but their goals were usually to express desirable ethical standards and codes of conduct rather than to arrive at generalizations about human behavior. However, some predicted the emergence of a science of society and, as a result, took the first steps toward establishing such a science. Among the early philosophers who made such efforts were Ibn Khaldun (1332-1406) of Arabia, Giovanni Battista Vico (1668-1747) of Italy, and Charles Montesquieu (1689-1775).

The most influential, however, was France's Auguste Comte (1798-1957), known as the "Father of Sociology. Comte saw sociology as the last offspring of philosophy, and he worked to establish it as a science. The application of the scientific method had already distinguished the physical sciences; Comte attempted to apply the same method to the study of man in society. As a result, sociology was founded on scientific observation rather than authoritative pronouncements or philosophical speculation. Comte divided science into two parts in his work 'A study of positive philosophy.' I Social statistics - the study of major societal subdivisions such as family, government, industry, and religion; (ii) Social Dynamics - the study of society as a whole and its development as an entire unit. In France, England, Italy, Germany, Russia, and the United States, Comte had immediate successors. Herbert Spencer (1820-1903) of England published 'Principles of Sociology' in 1976, believing that social science should study the interrelationships between different elements of society, whereas Lester Ward, an American pioneer in sociology, published 'Dynamic Sociology' in 1882. He, like Comte, envisioned rapid progress in society and sociology, taking an active role in efforts to improve (Comte, 1845, Spencer, 1945; Nertrand, 1958, Rogers, 1960; Jain, 2014; Chitambar, 2016; Jakubek & Wood, 2018).

However, to describe the historical background of Rural sociology is to trace its early beginnings in the United States in 19<sup>th</sup> century. The period of 1890-1920 in America saw the rural societies facing many socio-economic problems which attracted the attention of the intelligentsia thus establishing study of rural society as an academic discipline. The

appointment of Country Life Commission by the then United States president Theodore Roosevelt was an important landmark in the history of rural sociology. The Second World War caused heavy destruction and damage to human society which needed reconstruction. As a result, rural sociology got an impetus in USA. The main concern of rural sociology came to be the understanding and diagnosing of the social and economic problems of farmers. The internal structures of community life and the changing composition of rural populations were given more attention than their relationships with land or the social aspects of agricultural production (Jain, 2014; Chitambar, 2016).

The history of rural sociology in the nineteenth century is fascinating. Rural sociology has progressed from humble beginnings and a few pioneers to a full-fledged discipline that provides understanding of rural communities, groups, institutions, cultures, and other forms of human association. Rural sociologists offer some solutions to social problems not only in the United States, but far beyond its borders to countries all over the world, particularly those in the process of developing their rural areas, through scientific analytical study. Rural sociology is not yet a required subject at the undergraduate and postgraduate levels in Nigeria, but as the subject gains traction in educational institutions and in the field, its practical utility will become more apparent.

### *Rural Development*

Creating the conditions for the realization of human personality is what development is all about. Poverty, unemployment, inequality, a high level of nutrition, a high health standard, and a low infant mortality rate are all indicators of poor development (Forest, 1981 cited in Kamar, Lawal, Babangida & Jahun, 2014, p. 24). Development, according to this definition, is essentially changing the life of an individual, group, or community in terms of social amenities such as good roads, adequate and clean water, good health care, education, and electricity, all of which make life more meaningful. 'Different disciplines define development on the basis of their individual orientations,' write Kadiri, Muhammed, Raji, and Sulaiman (2015).

Economists define development as increased output and investment, gross domestic product (GDP), and per capita income. Political scientists define it as the enhancement of political resources in which power and related resources are distributed equitably. Sociologists, on the other hand, define development as the process of achieving structural differentiation, peace, order, and social progress. People's participation in development programmes and policies is a major impetus for development. This may support Rogers' (1976) assertion that social change is a widely participatory process of social changes in society intended to bring both social and material advancement (including greater equality, freedom, and other valued qualities) for the majority of the people through their gaining control over their environment. This may have influenced Onyikwu's (2004) assertion that whether referring to societies, regions, or individuals, there is an underlying association between development and positive change. It entails the material well-being of the majority of citizens, a reduction in inequality, and, above all, the guarantee of life security and poverty in the nation state.

Rural development, according to Rogers and Whiting (1976), refers not only to providing jobs and increased incomes to rural people, but also to improving the quality of rural living through increased and improved community services. To Olayide (1979), rural development is a process in which concerted efforts are made to facilitate significant

increases in rural resource productivity with the overall goal of increasing rural incomes and employment opportunities in rural areas. Ering, Out, and Archibong (2014) pointed out that the development of rural areas was not given much attention and prominence in Nigeria until recently. Much of her policy focused on changing the urban landscape and the fortunes of city dwellers. Academic scholars, policymakers, and development experts in Nigeria have realized that national development cannot be true development until the vast rural areas of the country are developed and brought into the mainstream of development; only then can we speak of true development. Rural areas in Nigeria have been socially and economically backward since the colonial era. Furthermore, the disparity between rural and urban areas has grown at an alarming rate.

Furthermore, according to Ering et al. (2014), the peasant population who formed the bulk of rural areas and produce much of the agricultural products that the nation depends on seemed neglected by the government, a situation that has resulted in the much orchestrated problems of rural-urban drift, declining agricultural production and its attendant food shortage, unemployment, urban congestion, and overstressed facilities. Rural development is defined in this study as the process of improving the social and economic lives of people living in rural areas.

#### *Rural Development Policies in Nigeria*

Over the years, efforts at developing rural communities have been pursued since the colonial era; concern has been to transform the mostly agrarian society in order to reach a common set of development goals based on the capacities and needs of the people. Policies and programmes aimed at improving rural areas have been implemented and pursued by various governments (local, state, and federal) since the 1960s. Ering et al. (2014) maintained that Nigeria's rural communities have ever before the advent of Colonialization indulged in various forms of community self-help schemes such as construction of village moats, shrines, village squares, market and a host of modern rural development schemes can be traced back to the 1920s when the British colonial office adopted the strategy of community development as a special development model for the rural areas of all colonial territories. The concern at the time was to compensate for the shortcomings of the traditional British school system by improving skills in community development centers such as carpentry, house building, shoe repair, and so on.

However, in the 1960s, the Nigerian government established farm settlement schemes, which gave rise to the various farm plantations found throughout the country. The policy's primary goal was to prevent youth migration from rural to urban areas. The policy, however, failed because it was largely incoherent and uncoordinated within individual settlements. In 1976, the Murtala and Obasanjo administration implemented another rural development policy known as Operation Feed the Nation (OFN), which aimed to reduce food prices and the rate of food importation. Other rural development policies include the River Basin and Rural Development Authorities established by the Obasanjo administration in 1978, the Green Revolution in 1980 by the Shagari regime, the Directorate for Food Roads and Rural Infrastructure by the Babangida regime, the Better Life for Rural Women in 1986 by Marian Babangida, the Poverty Alleviation Programme in 1999 by the Obasanjo regime, the Poverty Alleviation Programme in 2011 by the Yardua and Jonathan administration. The goals of these policies and programmes were to increase rural income and productivity in rural communities.



Unfortunately, these policies and programmemes have not improved the social and economic well-being of rural dwellers. In fact, some of these policies failed due to a lack of a culture of continuity in government programmemes and policies, political corruption, and outright abandonment of policies and programmemes by government officials.

#### *Theoretical Framework*

The modernization theory was used in this study to achieve the goal of a comprehensive review. The theory emerged in the 1950s and 1960s, when many people believed that developing countries would follow in the footsteps of developed countries (Chodak, 1937). According to the modernization theory, development is the natural progression of an evolutionary process in which societies, particularly rural communities, progress from simple to complex economies and institutional structures (Brinkerhoff, White, Ortega & Weitz, 2011). Modernization theory is a description and explanation of the processes that lead to societies transitioning from traditional or underdeveloped to modern. Modernization is thus the process of transition to those types of social, economic, and political systems that emerged in Western Europe and North America from the seventeenth to the nineteenth centuries and spread to other European countries, as well as to the continents of South America, Asia, and Africa in the nineteenth and twentieth century's. Since the 1950s, modernization theory has been a major perspective in the sociology of national development, rural development, and underdevelopment. The primary focus has been on the processes by which past and present pre-modern societies or rural communities become modern through economic growth and changes in social, political, and cultural structures (Jain, 2014).

Modernization encompasses all of the political and economic changes that occurred as a result of industrialization. It entails extending rights, values, and opportunities from the elites to the masses in a society, particularly in developing countries (Kornblum, 2012). Modernization theory's key points include (1) a degree of self-sustaining growth in the economy, (2) a measure of public participation in the polity, (3) a diffusion of secular-rational norms in society culture, (4) an increase in mobility in society, and (5) a corresponding transformation in the model personality that equips individuals to function effectively in a social order (Kar, 2012). The relevance of modernization theory to this study is based on its ability to justify how social welfare programmemes, services, and benefits help people, particularly rural dwellers, meet their basic social, economic, health, and educational needs (Barker, 2003). The modernization theory is concerned with the social and economic well-being of a society's majority. It provides reasonable security from want and assault; promotes equity and a productive and stable society that paves the way for national and rural development (Chitambar, 2016). However, while Modernization theory is imperfect and attempts to shape society do not always succeed in modern times; most sociologists believe the theory is worthwhile. Furthermore, it can be argued that modernization theory and sociological imagination are more important than ever if we are to control the risk found in contemporary societies and realize the potential for improving the lives of rural people in Nigeria and other developing countries. The study's objectives and null hypotheses were developed in accordance with a review of related literature.

#### *Rural Sociology and Rural Development*

Developing countries (including Nigeria) are more convinced than ever that in order to ensure their countries' overall development, rural areas must be transformed and integrated into the country's development process (Abasiokong, 1982; Ering et al., 2014; Kamar et al. 2014). However, Obianigwe (1999), Ugwu (2003), and Ering et al. (2014) maintained that "the rural dwellers in Nigeria frequently rely on shallow wells and untreated water; the villagers, the majority of whom are farmers, work on the land from sunrise to sunset only to produce food for the uncontrollable teeming urban population. Children with distended tummies and spindly legs can be found in and around villages who lack a complete diet, formal education, and a technical sense of belonging. Most rural communities in Nigeria have self-built schools, but the majority of them lack necessary academic aids. Because of the death of facilities, qualified teachers refuse to work in the majority of them.

In fact, today's rural communities in Nigeria face challenges such as malnutrition, poor living conditions, diseases, illiteracy, high infant mortality, social ill-treatment of certain sections of society, long-term health problems, a lack of proper housing, injustice to women, and a lack of infrastructural facilities, as well as poverty and unemployment due to limited economic opportunities. All of these accurately depict the reality of rural communities in most developing countries, with particular reference to Nigeria. It paints a stark and pitiful picture of poverty, outright neglect, underdevelopment, and ineffective policy and programme implementation. According to Kamar et al. (2014), rural development has not been centrally guided in Nigeria; rather than institutionalizing a rural development ministry, the federal government has rationed development programmemes across several ministries and departments at both the federal and state levels. The critical role of local government as a link between government and rural people remains unattainable. These lapses have prompted Nigeria to continue its search for a new rural development strategy. This research proposes rural sociology, which is critical in harnessing rural initiative for rural development.

It should be noted at this point that many of Nigeria's rural challenges are sociological in nature, and rural sociologists' roles are primarily in the applied field of more effective planning and operation of rural community development programmemes. Most rural development policies and programmemes in Nigeria aim to achieve the following goals: reducing rural poverty and rural unemployment; (2) integrating rural dwellers into the nation's socio-political and economic processes through increased political awareness and consciousness; and recognizing the rural resident first and foremost as an individual citizen entitled to all good things in life, just like his urban counterparts. (3) Increase rural people's incomes from agriculture and non-farm activities such as agro-based industries, petty trading, and rural transportation, (4) improving equity in the distribution of wealth and personal incomes, (5) improving quality of life through the provision of safe drinking water, electricity, health care, good roads, and other basic necessities, and (6) increasing rural value-added products. Rural sociology is widely recognized as a viable tool for rural development and the provision of social services to the people (Rogers, 1960; Ering et al., 2014; Jain, 2014; Chitamber, 2016; Moore & Ndiaye, 2017; Jabubek& Wood, 2018).

As a result, it is believed that rural sociologists are strategically placed to implement the aforementioned rural development policies and programmemes because rural sociologists can effectively promote changes in rural areas by influencing rural people's behavior that is desirable in the interests of human and national welfare, particularly the welfare of the rural poor. A rural sociologist understands what is going on in the minds of rural people;

they understand their relationships and interactions, their groups, institutions, organizations, and the culture they share. All of these factors have an impact on their behavior. Rural sociologists gain insight into rural people's behavior and the impact of culture and society on them; this knowledge is critical for rural community development (Chtambar, 2016). Rural sociology is clearly important in community development in India and other developing countries. As a result, for rural community development programmemes in Africa, and particularly in Nigeria, rural dwellers must be educated in order to change their attitudes toward community projects or programmemes. They require education that awakens human consciousness to the fact that what distinguish rural areas from urban cities is not paved streets, bright lights, opportunities, activities, services, and a high level of human connection. As a result, not only do people in cities need to change their attitudes, beliefs, and outlook on life, but so do people in rural areas. True development in the society cannot be possible without taking into account the contributions of rural dwellers.

### **Objectives of the study**

Specifically, this study sought to:

1. Examine the relationship between rural sociology and rural development in Ethiope east local government area of Delta State, Nigeria.
2. Ascertain the extent to which rural sociology impact on rural development in Ethiope east local government area of Delta State, Nigeria.

### **Hypotheses of the Study**

The following null hypotheses were formulated for testing:

1. H<sub>1</sub>: There is no significant relationship between rural sociology and rural development in Ethiope east local government area of Delta State, Nigeria.
2. H<sub>2</sub>: Rural sociology does not have a significant impact on rural development in Ethiope east local government area of Delta State, Nigeria.

### **Methodology**

#### *Research Design, Population and Sample Size*

The purpose of this study was to determine the relationship and impact of rural sociology on rural development in selected rural communities in Delta State, Nigeria, using a cross-sectional research design. The Ethiope east local government area is divided into three districts: Abraka, Agbon, and Isiokolo. According to the 2016 census, it has a land area of 380km<sup>2</sup> and a population of 463,813 people. Abraka, Samagidi, Ikinigho, Oria, Ekerejeta, Umeghe, Ekirigbo, Eku, Okuighele, Orhokpo, Mosogar, Ejenesa, okuke, Erho, Uргуoka, and Adjikpotor are among the communities chosen. As of 2019, the total number of registered voters in Delta State's Ethiope East local government area was 362,753. (INEC, 2019). Using Taro Yemeni's 91971) formula, the following is presented:

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

Where: n = sample size

N = Total Registered voters (population size)  
 r = Error terms

$$n = \frac{362,753}{1 + 362,753(0.05^2)}$$

$$n = \frac{362,753}{1 + 362,753 (0.0025)} = 399.50$$

Approximately 400

As shown above, the study sample size is 400 respondents. Sixteen communities in the Ethiopia east local government area were chosen at random, and the research instrument used for this study was a structured questionnaire developed by the researchers, consisting of 19 items structured along a 5-point likert type scale that ranks responses on a scale of (1) strongly disagree (SD) to (5) strongly agree (SA).

*Validity and Reliability of the instrument*

The validity of the research instrument was determined by subjecting it to face validation by three experts from Delta State University's Department of Sociology and Political Science in Abraka, Nigeria. These experts' opinions and suggestions were used to modify and create the final draft of the instrument. The research instrument was also subjected to a reliability test, which was carried out on 56 participants in the study from the districts of Abraka, Agbon, and Isiokolo. As shown in the table below, the Cronbach Alpha method was used to determine the internal consistency of the items.

**Table 1: Reliability Statistics of Variables**

Scale	No. of Items	Cronbach's Alpha Coefficient
Rural sociology	8	.835
Rural development	11	.817

Source: Researcher's Computation, 2021

The coefficients of 0.835 and 0.817 obtained satisfied the general recommended level of 0.70 for research indicators (Cronbach, 1951). As a result, the researcher satisfied the research instrument's validity and reliability.

*Model Specification*

In order to examine the impact of rural sociology on rural development in selected communities in Ethiopia East local government area of Delta State, Nigeria, the Mathematical Model is specified below given that this study has one dependent variable:

$$RD = f(RS) \text{ ----- } 1$$

Econometrically, the model was specified as:

$$RD = \beta_0 + \beta_1RS + \sum t \text{ ----- } 2$$

Where: RD = Rural Development  
 RS = Rural Sociology  
 $\beta_0$  = Constant  
 $\beta_1$  = Coefficient and apriori expectation sign of independent variable  
 $\sum t$  = Error term

From the above, the apriori expectation of the parameter of the model was  $\beta_1 < 0$

*Method of Data Analysis*

Data collected were analyzed using correlation coefficient and linear regression analysis with the aid of statistical Package for Social Sciences (SPSS) version 23.

**Research Results**

**Table 2: Distribution of Questionnaire and Response**

S/N	Ethiopia East Communities selected	Questionnaire Distributed	Questionnaire Retrieved	Percentage Retrieved
1	Abraka	25	19	4.75
2	Samagidi	25	17	4.25
3	Ikinogho	25	17	4.25
4	Oria	25	21	5.25
5	Ekerejeta	25	20	5.00
6	Umeghe	25	16	4.00
7	Ekirigbo	25	14	3.50
8	Urhuoka	25	17	4.25
9	Ekue	25	18	4.50
10	Okuighele	25	19	4.75
11	Orhokpo	25	19	4.75
12	Mosogar	25	15	3.75
13	Ejenesa	25	21	5.25
14	Okuke	25	18	4.50
15	Erho	25	19	4.75
16	Adjikpotor	25	17	4.25
	Total	400	287	71.75

Sources: Questionnaire Administered, 2021

We had a response rate of 71.75 percent because 287 of the 400 copies of the question were retrieved and analyzed. There were 123 male respondents and 164 female respondents among the 287 total.

**Table 3: Correlation Matrix**

Variables		Rural sociology	Rural development
Rural sociology	Pearson Correlation	1	.823
	Sig. (2-tailed)		.005
	N	287	287
Rural Development	Pearson Correlation	.823	1
	Sig.(2-tailed)	.005	

	N	287	287
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\*\*Correlation is significant at 0.05 level 92-tailed)

Sources: Researcher's Fieldwork, 2021

### Linea Regression Analysis

**Table 4: Model Summary**

Model	R	R-Square	Adj. R-Square	Std. Error of Estimate
1	.745 <sup>a</sup>	.624	.617	.360

Predictors: (Constant) Rural sociology (RS) Dependent variable: Rural development (CD)

Source: SPSS Output, 2021

Table 5: ANOVA<sup>a</sup>

Model	Unstandardized Coefficient		Standardized coefficient	T.	F-Stat.	D. W.	Sig.
	B	Std. Error	Beta				
(constant)	.613	.207		3.205	21.386	1.621	.000
RD	.675	.163	.759	8.214	23.845	1.927	.001 <sup>b</sup>

Dependent variable: Rural Development Predictors: (Constant), Rural Sociology

Source: SPSS Output, 2021

### Discussion of Findings

Table 3 depicts the relationship between rural sociology and rural development in Delta State, Nigeria's Ethiope East local government area. Rural sociology and rural development have a significant positive high correlation ( $r=0.823$ ,  $n = 287$ ). This suggests that rural sociology has a strong and positive relationship with rural development. The null hypothesis is thus rejected. Table 4 shows an  $R^2$  value of .624 indicating that rural sociology accounts for 62.4 percent of the variation in rural development in Delta State, Nigeria's Ethiope east local government area. That is, changes in rural sociology can explain 62.4 percent of the variation in rural development, while other factors outside of this model can explain 37.6 percent of the variation. Table 5 shows a coefficient of 67.5, indicating that a 1% increase in rural sociology leads to a 0.68 % increase in rural development in Delta State, Nigeria's Ethiope East local government area. The model is statistically significant at 0.05 significant levels, according to the F-statistics of 23.845. The model's Durban-Watson statistics of 1.927 indicate that there is no series autocorrelation in the regression analysis. Therefore, the null hypothesis is rejected.

The findings revealed, among other things, that there is a positive and strong relationship between rural sociology and rural development in Delta State, Nigeria's Ethiope east local government area. This finding is consistent with the findings of Chitambar (2016), Ndiaye (2017), and Jakubek and Wood (2018), who all believe that there is a strong relationship between rural sociology and rural development. The study's findings also revealed that rural sociology has a positive and statistically significant impact on rural development in Delta State, Nigeria's Ethiope east local government area. This finding is consistent with Bertrand (1958); Ering *et al.* (2014); Jain (2014); Ndiaye (2017) and Jakubek and Wood (2018) views that rural sociology stimulates the design and implementation of effective rural policies that improve rural population livelihoods, and that rural development is achieved through the practical spirit of rural sociology Furthermore, Chitamber (2016)

contends that sociologists are concerned with rural dwellers' behavioral and attitudinal changes, which set the stage for rural and national development. According to Ndiaye (2017), rural sociologists are opposed to African agricultural and rural development policies and programmes.

## Conclusion

The study perceived findings indicate that there is a positive and significant relationship between rural sociology and rural development. In addition, the impact of rural sociology on rural development in Delta State, Nigeria's Ethiopia east local government area was confirmed. We concluded that rural sociology has a significant impact on rural development based on our findings. As a result, the study suggests the following: The Nigerian government should hire rural sociologists to help design and implement effective rural policies and programmes. This will help to stimulate the development of rural communities in Nigeria. In Nigeria, the government should also fund rural sociological research. The deliberate development of rural communities in Nigeria remains a major challenge for policymakers. As a result, there is an urgent need in Nigerian universities to make rural sociology a required subject at both the undergraduate and postgraduate levels. The Nigerian government should establish more institutions where rural development can be studied at the national diploma and degree levels. In India, for example, over 15 universities offer a rural development programme as a course of study (Rank, 2010 cited in Kamar et al. 2014)

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## A THEORETICAL ASSESSMENT OF SUCCESSION POLICY AND GOVERNANCE IN NIGERIA

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**Abstract:** *The study assessed succession policy and governance in Nigeria, with particular focus on challenges and prospects. The objective of the paper was to ascertain the effectiveness of succession policy in Nigeria. The paper assumed that succession issues have generated several controversies not only in Nigeria but globally. The system theory was utilised as the theoretical framework for the paper. Data was obtained from secondary sources from journals, books, newspapers and other relevant materials. The study adopted the descriptive method of analyses. It argued that in spite of the existence of succession policy, some Nigeria leaders are reluctant to hand over power and responsibilities at the expiration of their tenure to a successor. The finding revealed the following as challenges of succession policy in governance; weak institutions, sit-tight syndrome, and politricking among others. The paper concluded that much is still expected of government in tackling succession challenges; however, there is prospect for improvement in succession processes with the prevalent awareness of the gains of succession policy processes. The study therefore recommends building strong institutions, and shunning sit-tight syndromes among others to mitigate the challenges of succession issues.*

**Keywords:** *Succession, Policy, Politricking, Governance.*

### **Introduction**

Succession policy in governance is a universal administrative phenomenon. Fundamentally, succession challenges are not limited to Nigeria government and administration. What seems tenable globally on succession issues is that it is based on established policies and procedures (as it is peculiar and acceptable to each nation).

Nigeria succession and transition in governance have been observed as unmethodical, slapdash and inappropriately implemented due to individual interests. Olaniyi and Umar (2014) stated that Nigeria succession/transition issues are often hazardous and mostly shrouded by vestige of personal interest which is not basically fathomed on public policy directives. This nefarious attitude has become too obvious as many leaders in Nigeria government rarely comply with the legal framework for succession. Hameso (2002) opined that most politicians deliberately ignore laid down succession procedures, rules and regulations / policies, and in most cases, it becomes undemocratic to even discuss the issues of succession. It is pertinent to note that if unconstitutional processes of succession are not curtailed, it will overshadow democracy and its principles. Enojo (2010) and Egwemi,

(2010) in their separate works noted that democratic governance must be institutionalised otherwise, democracy will remain a sham; and then the people will hardly gain anything from their rulers. Olaniyi and Umar (2004) holds that failure to effectively advance and manage any type of leadership succession policy in Africa, can result in succession crisis. Goldsmith (2000) identified four types of leadership succession in Africa to include: Assassination, coup d'etat, abdication and or resignation, and constitutional procedures. Research revealed that most countries in Africa adopted the constitutional procedure yet, Chikerema and Nzewi (2020) observed that Africa leaders who adopted this model and rotational succession model still disregard their constitution. Succession processes that do not comply with its administrative policy directives result into severe constitutional problems that alter constitutional provisions, policy directives and procedures and its general effects will be on all spheres of governance. Rawlings (2008) in Olaniyi and Umar (2014) added that at the top of the echelon of administration, the issues will become the scant respect that many government officials have for the constitution and constitutionalism. Against this background this paper reviewed fundamental challenges entangling succession policy in Nigeria and proffered solutions to alleviate the problems.

### **Statement of the Problem**

Succession policy is vital in administrative transition processes; it is the foundational laid down guidelines for continuity of government and administration at all levels of governance. Every modern country, system or institution has a succession plan which is not compromised particularly in most developed nations of the world and these plans are based on principles and procedures of which policy directive is key. This implies that all regions of the world have succession plans which is anchored on policy directives irrespective of the system of government predominant at the time. This also suggests that succession/ transition policy challenges ought to be minimal in an organised and democratic society with advanced succession policy and programmes. Over the years, Nigeria government has experienced different forms of leadership succession type such as military incursion or overthrow, coup d'etat, and currently the constitutional procedure. However, despite government efforts to sustain Nigeria democracy and upgrade its administration through these reforms and policies to meet modern global standard, there still seems to be challenges that cog government efforts on succession policy and its implementation. It is against this backdrop that this paper reviewed the succession policy in Nigeria with a focus on the challenges and prospects. The paper therefore seeks to answer the following questions: What is succession policy? What are the succession policy in Nigeria government? What are the challenges confronting succession policy implementation in Nigeria? How can they be tackled in Nigeria contemporary political dispensation? What are the prospects of Nigeria succession policy?

### **Objective of the Paper**

The paper reviewed succession policy in Nigeria and its' challenges and prospects, with the following specific objectives:

Identify the concept of succession policy.

Determine challenges confronting succession policy.

Ascertain the impact of succession challenges on governance in Nigeria.

Discover government efforts geared towards resolving succession challenges.  
Examine succession policy prospects in Nigeria and proffer solutions.

#### *Clarification of terms*

**Policy:** Policy is any government action or inaction in the interest of the public.

**Governance:** in this paper is portrayed as structures and processes that are designed to ensure accountability, transparency, responsiveness, rule of law, stability, equity and inclusiveness, empowerment and broad-based participation. It is about how power is distributed and shared, and how policies are formulated, and priorities.

**'Politricking':** in this paper 'politricking' has been coined with a combination of two words "politics" and "trickery". This simply means 'the politics of tricking' or 'politics of deception'. It is deliberately applying deceitful skills in misleading or misinforming people (or someone) about the true nature of a situation. The act usually involves deceptive statements that misleads, hides the truth, or promotes a belief, concept or idea that is not true and often done for personal gains or advantages.

#### **Methodology**

The paper adopted the descriptive design method in its analyses by systematically obtaining information to describe succession policy and challenges associated with it in Nigeria. The design helped to answer 'what' and 'how' questions of the study's problem. Secondary data was thus obtained from relevant literature such as journal articles, books, newspapers, publications, and internet materials.

#### **Literature Review**

##### *Concept of Succession*

The term succession means different thing to different scholars of various discipline. Literary it means a change in structure, in which one person after another succeeds to a position, title or throne. It is a process of bringing about changes in the sphere of a phenomenon by which a person becomes entitled to the position. Banjo (2008) says succession means the process of changing leadership. Olaniyi and Umar (2014) on their part viewed succession as the orderly means of transferring of political power from one group to another and such orderliness process is determined by the level of maturity of the country and its citizens. He further buttressed the point that there is need for strategic and rational thinking especially on succession issues, and its management from every sphere of life, be it traditional, social, political, economic, corporate and otherwise. This will guarantee a stable polity, policy and restore confidence of the government and the country (Ijim-Agbor, 2004). Musa (2022) view succession as a theoretical and empirical transformation of the totality of social, economic, cultural and political values, experience and processes under social change from the inception of colonial contact to present day democratic governance.

Succession could be orderly or disorderly. An orderly succession of governance involves total adherence to certain policy, rules and existing procedures of handing over or transiting administrative mantle while the disorderly succession does not give cognisance to any policy, law, rule or procedure. Most modern countries seem to be practicing the orderly succession type, this position was observed by Chikerema and Nzewi (2020) in their view

that succession outlook is not gloomy in Africa, as several countries inclusive of Nigeria offer good example of peaceful and orderly leadership change. Habisso (2011) added that orderly process of succession is common especially in these last decades but scholars in this regard has failed to investigate how orderly succession processes are implemented; whether with total credence to established succession policy and constitutional provisions or with the basic tenets that propels an orderly succession. The extent to which the policy gives directives to such orderly succession was not verified. However, some other scholars disagreed that most Africa countries inclusive of Nigeria barely display quality and peaceful succession or transition and there has always been disorderliness and disobedience to constitutional provisions when it relates to administrative handing over. Aborisode and Oyekunle (2021) opined that there is clear evidence that most Africa succession processes especially that of Nigeria have been irregular and disorderly without any recourse to the provisions of the constitution or succession policies. Hence this paper reviewed succession policy in Nigeria, with a focus on the challenges.

#### *Succession policy in Nigeria*

Succession policy is the (legal) framework that regulates the practices of succession, such legal framework should be fair and enforced impartially (Anekwe, 2020). Nigeria is a multi-tribal and multi religious society where every ethnic-religious group desire political and administrative power, the best method for accommodating such desires is the policy set up for healthy competition. Leadership / administrative succession policy involves public concern hence, it is a societal challenge or responsibilities to make succession policy work (Fox and Newell, 2015). Succession policy is a public policy concern which is an intentional course or action of government officials towards resolving public issues. Policy formulated if not implemented, is as good as not having policy, in fact, Egonmwan (2001) in Ekpiten and Ifere (2015) noted that implementation of policy stage makes it operational and effective.

Most Africa countries constitution specify succession processes and procedures in their policy outlines for political and administrative actors. In Nigeria, the policy directives guiding succession issues is the 1999 constitution as amended. The Nigeria 1999 constitution which is the key law regulating power transition as succession policy, provide that the following circumstances lead to succession:

(a). Death: Section 135 (1) (b) of the 1999 constitution explicitly provides that a person (president) shall cease to hold office if he/she dies while the tenure subsists. It follows that the vice president will automatically become president in accordance with section 146 (1). The office of the vice president becomes vacant to be filled by new nomination and approval (Nigeria Constitution; 1999).

(b). When a successor takes oath of office: Section 135 (1) (a) provides that a person shall hold the office of the president until when his successor in office takes the oath of that office.

(c). Registration: Section 306 provides that any person who is appointed, elected or selected into public office may resign from that office by writing and section 135 (1)(c) provides that such resignation takes effect from the date the appropriate authority receives it, then section 146 will be applied (Nigeria Constitution;1999).

(d). Impeachment / Removal: by virtue of the instrumentalities of Section 143, the president or vice president or both can be removed from office, as long as the provisions stipulated

are duly complied with and the vacant office(s) are filled by virtue of Section 146 of the constitution.

(e). Temporary Incapacitated: Bamidele (2010) in Igbuzor (2011) defined temporary incapacitated as a situation whereby a person lacks the ability to discharge his/ her duties as saddled with his/her office usually for a short time. Section 145 expressly conferred powers on the vice president to Act where such incapacitation relates to the office of the president for the main time.

(f). Permanent Incapacitation: Where the inability of the president to discharge his duties creditably becomes permanent according to the provision of Section 144, Section 146 (1) (3) will prevail, the vice president automatically becomes president and where both president and vice president are incapacitated, Section 146(2) conferred power on the president of the Senate to Act for a period of three (3) months during which an election is conducted to fill the vacant position (Nigeria Constitution;1999).

### *Theoretical Framework*

The theoretical framework for this paper is the system theory. The system theory in this context views governance as a holistic structure which allows for an understanding of the connection between various parts of the system and how they interact with one another. The system theory has its origin from the biological science in the 1950s with some of its proponent being biologist including an Austrian Biologist Ludwig Bertalanffy in 1951 and a Chilean Biology Humberto Maturana in 1950s-1970s. The theory postulated that the society is a whole which is made up of various components. It postulates that any change in one part of the system affects the entire system, the theory has been applied in various fields and in the field of political and administrative sciences, David Easton in 1953 expanded on the system theory from the political science perspective. He postulated that components of each state are structured in a hierarchical order, and each component is interdependent on one another in the system to the extent that one component cannot function without the other components. Invariably social organisations have to make permeable boundaries of each of the component of the system. Political organisations are treated as biological organisations undergoing the life cycle of growth, maturity and death and the opportunity for the system to adapt are frowned upon or ignored (Schneider and Somer, 2006).

The application of the system theory on the study “succession policy and governance in Nigeria: challenges and prospects” is apt as a component of the whole system whereby government and administrative functions carried out invariably affects every other part of the state and any change thereby affects the whole system. Such functions could include policy making and implementation, such policies affect the entire society. The adoption of succession policy as a change agent will definitely affect the entire system because the process of succeeding the government is the input and new government (successor’s) action and inactions are the output that affects the entire society. The process is a continuity of a circle that grows, matures and could possibly die.

### **The Impact of Succession Policy on Governance in Nigeria**

The paper reviewed succession policy, and its impact on governance in Nigeria. Some scholars hold that incumbent government disregards constitutional provisions in the course

of their operation of public affairs due to the dare desires of administrative actors to remain in office / position even when performances replicate incapacity to discharge creditably their saddled responsibilities (Zhou, 2013). This is a total violation of succession policy and its implementation; this implies that political/ administrative office holders cling to office just to take shade under the 'immunity clause' provided by Section 350 of the 1999 Constitution and it is to render succession policy weak.

For instance, a sitting governor or deputy governor of a state, would seek position to the senate and from the senate, re-seek position for governorship position. These are the tactics of weakening succession policy in Nigeria. Also, attempts to elongate tenure and absence of internal political party democracy is observed as a calculated attempt to recycle few persons within the corridor of power. Late president Yar'Adua failure to transmit power to the vice president through the instrumentality of Section 145 of the 1999 Constitution of Nigeria, to the extent that it generated national controversies, and for the president to have travelled from 23rd November, 2009 for medical treatment and at as 31st April, 2010, no cogent communication to Nigerians, until his death on the 5th May, 2010 was an attempt to ridicule succession policy in Nigeria. Bamidele (2010) in Igbuzor (2011) opined that it was the president's obligation to write prescribed declaration by transmitting administrative power, when he was incapacitated; anything short of that is tantamount to a breach of his oath of office and of course the constitution. Furthermore, in 2007 former president Olusegun Obasanjo attempted to alter the provisions of Sections 135 and 137 aimed at paving way for a third term was clearly an indication to jettison succession policy. His decision to declare the office of the vice president vacant in 2007 against the provisions of Section 143 and 144 was another desperate attempt to destroy Nigeria succession policy at the time.

Several other attempts have been made by successive leaders since independence to undo succession policy for personal, party or groups' interests to the detriment of the general public. Chikerema and Nzewi (2020) and Helms (2020) stated that since independence, there has been several succession patterns. Giving one of the patterns, Zeng (2019) earlier pointed out that when appointed or elected second-in-command of administrative affairs, and one takes overpower, succession has already taken place. The scholar did not however, showcase how the patterns of taking overpower was or should be done whether in accordance with succession policy/constitution or by other crooked means. However, contemporary democracies seem to be more constitutionally inclined, there also seems to be more understanding of succession policy nowadays. An instance is the handing over of power by former president Olusegun Obasanjo to Late Yar'Ádua in 2007; the then vice president Goodluck Jonathan succeeding late President Musa Yar'Adua in 2010 as president and himself who was later succeeded by President Muhammadu Buhari in 2015 seems to be based on observation and adherence to succession policy and the constitution of Nigeria. It is expected that same will be observed in 2023 elections to have a sustainable succession development.

### **Succession Policy Challenges in Nigeria**

Succession policy challenge is an administrative issue that hinders the required continuity of governance and leadership in the society. Policy/policies as earlier noted, are laid down rules and regulations that direct(s) the affairs of an organisation or a country and where it

is specifically targeted at a concept, it is not out of place to have policy that regulates the act of succession or transition of administrative power and functions from one person to another. Igbuzor (2011) noted that under normal circumstances, policy guides direct succession in every country, results into proper alternation of administrative powers and persons which will be in accordance with the people's will under democratic tenets, but where policy and constitution directing succession processes are not complied with, it suggests that there are issues which could have made succession policy implementation impossible for administrative actors to comply with. Some of the rationale for succession policy challenges in Nigeria includes but not limited to the following:

**Non-Compliance with Succession policy:** It has been observed over the years that most administrative actors do not actually comply with policy or laws laid down as directives of succession and power transition. Olaniyi and Umar (2014) alleged that many public leaders and administrative heads do not comply with the legal framework for succession. Hameso, (2003) consented to this position in his opinion that most politicians purposely ignore laid down rules and procedures and even prohibit any form of discussion that pertains to succession plans. The very reason for deliberate refusal to comply with succession policy was noted to include leaders' selfish interests and desire to practice sit-tight-syndrome or elongation of tenure, amongst others. This was exemplified in the attempt of former President Obasanjo's desire to alter Section 80 (1) of the 1999 Constitution in other to accommodate a third term bid ahead of the 2007 general election.

The unwillingness of the political leaders to imbibe and uphold the fundamental pillars of governance such as adherence to rule of law, fundamental rights, separation of powers, is at the root of the leadership crisis bedeviling Nigeria and as far as this continues to be a lacking trait in leadership, we shall continue to have challenges in our political succession and governance processes.

**Weak Institutions:** Another succession problem against good governance is associated with weak government institutions. Government institutions, are selected government establishments, agencies, and bodies established to effectively formulate and implement sound policies that can enhance the respect of citizens for the institutions to govern the state. Weak institutions, encourage mediocrity, nepotism, corruption; non commitment to state affairs, instability and several other factors that can stunt succession policy which invariably affects governance. Weak institution is the lacuna between the actual and intended effects of an institution (Brinks, Levitsky, and Murillo; 2020). It is uncommon for an institution to be weak without its outcome falling and make both socio-political and administrative reforms very irrelevant. It has been argued by various scholars and public sector analysts that the Nigeria administrative institutions are not sufficiently effective in carrying out their responsibilities. One of the greatest problems posed by weak institutions is its inability to enforce accountability as the institutions of state which ordinarily should act as checks on governance and hold persons in leadership positions accountable for their actions are weak. Worse still, the leadership of these institutions in Nigeria pander to the whims and caprices of those who put them in office against the collective interests of the nation. It, therefore, means that in order to have their way or satisfy their personal interests, political power holders in Nigeria will continue to choose or determine the leadership succession of the institutions of state for their own personal gain. Until such a time when we can collectively put in place a sustainable mechanism that will ensure the growth of strong viable institutions of state to withstand such pressures, leadership succession will

remain a huge challenge in Nigeria. Institutions such as the Judiciary, Independent National Electoral Commission (INEC), law enforcement and security agencies all play critical roles in political succession and governance. Unfortunately, political leaders have over time rendered these institutions weak.

**Sit-Tight- Syndrome:** Over the years, it has been argued that most Africa leaders inclusive of Nigeria find it cumbersome to relinquish powers and allow a successor to take over administrative mantle of their state. The deliberate and reluctant attitude to relinquish governmental powers to a successor especially when occasion warrants same, has been termed sit-tight-syndrome. This syndrome seems to seriously have great influences on succession and transition policy and its efficacy in the society. Musa (2022) gave an observed sit-tight-syndrome attempt by President Olusegun in his attempt to insert section 80 (1) as an amendment to the electoral Act, 2011. Offiong (2009) traced this challenge from the regime of General Yakubu Gowon. Peter and Kopsieker (2006) noted that such continuous attempts cause unnecessary political conflict and fragmentation in the state. Chikerema and Nzewi (2020) also consented to this view that reluctances to relinquish administrative and political power influence succession framework and the efficacy of governance in Nigeria in particular and Africa, at large. The syndrome has been observed to almost been acculturated and instituted into most states leadership structure by either elongation of tenure or falsification of age in order to accommodate more numbers of years and remain in position - thus, it becomes the framework for deliberate violation of succession policy and amendment of state policy or constitution that relates directly with succession issues just to prolong power. The implication of such action is what Fombad (2008) in Chikerema and Nzewi (2020) referred to as constitutional coup d' etat or a third term. Also, Sit-tight-syndrome has been attributed to administrative and leadership failure, as a result of socio-economic and environmental degradation and poverty. Igbuzor (2011) corroborates this view when he reiterated that leadership and employees can define the successes or failure of any organisation, institution or a country, because everything absolutely depends on leadership or governance. This immoderate determination to perpetually cling to power for life when coupled with strong opposition, can lead to a failed state, and in order to avoid a failed state and its syndromes, proper leadership transformation, change of attitude and total adherence to succession policy should be observed to achieve good governance. Power is transient and no one should hold onto it. Mpondi (2015) called for Africa leadership transformation and progression as a means of avoidance of state division, since change is inevitable.

**Lack of succession Planning:** Lack of succession planning has been observed as an impediment to succession policy. Succession planning is the process of identifying the critical positions within an organisation or a system. It involves developing action plans for individuals to assume leadership positions. Leaders are assessed and trained to develop those capable to assuming and playing vital roles in government (Dauda, 2013). Luna (2010) in Priya and Sudhamathi (2018) understood succession planning to be a systematic process with long run determining goals set ahead of individual(s) to relatively shoulder responsibilities within the society. Musella (2018) noted that some incumbent leaders abuse their leadership position to prepare their selfish lifestyle to the detriment of the society or those being led, such leaders barely have any legacy to leave for any successor because of lack of planning. Helms (2020) viewed such alteration or practices as apparently odd with the norms of democratic government and governance. It is fundamental to echo



that leaders and administrative heads are keen to leave a legacy for a succession and in doing so, there ought to be thorough succession planning in line with existing succession policy in the society or organisation (Fong et al, 2019). Lack of succession planning is tantamount to lack of political will of administrative heads to leave any legacy for successor. Leadership requires both a clear destination and an explicit road map. Too often, however, succession planning is handled with far less focus and specificity. This typically results in crisis management when no crisis is necessary or in confusion of leadership when clarity is easily obtained. Succession planning is fundamental to every government as it plays vital role in managing, building capacity, promoting the society; and ensuring good governance, it is cyclical and ensures that the successors have the mission and vision framework to achieve success therefore it should not be jettisoned.

‘Politricking’: In the opinion of Guy (2010), politics is the distribution of resources within society.

Politics of deception or ‘politricking’ affects succession issues in Nigeria, because with ‘politricking’, one can change anything be it the structure, institution, system, attitude, and government perceptions. Thus, political and administrative leaders are invariably observed playing around to the gallery with political rhetorical attempts to proffer solutions to societal problems, same problems they created themselves in other to remain in power. Politics seems to be played along the line of societal issues with the deception that only those at the helms of affairs can salvage societal challenges. Eze (2010) stressed that the people are sick and tired of such leadership styles, alienation of such revulsion politics and politics of looting. Political transition in Nigeria could best be understood with reference to the Babangida’s transition programme. The regime used various strategies to stay in power without actually starting the process of genuine democratisation through sound transition agenda (Musa, 2022).

The implication of ‘politricking’ on succession planning appears like political and administrative leaders would continuously deceive the followers/ people, in other to discard succession policy and see justifiable or non-justifiable reasons for not transiting administrative functions to a successor. This process continued from Babangida regime till late Gen. Sani Abacha until his death thereby setting another succession issue in motion (Musa, 2013). With transition of political power to democracy, selection processes of electioneering were put in place for those to be elected to succeed the government of the day (Jega, 2021).

### **Prospect of Succession Policy in Nigeria Governance**

Succession challenges are not peculiar to Nigeria, as it is a universal phenomenon. Succession challenges come in different forms. Tim (2013) averred that the year 2012 and 2013 were rough for most Africa leaders. According to him, some leaders were overthrown in coup, some defeated in elections, some resigned, some sacked and some others assassinated while some even died in office. These were all elements of succession which occurred in various dimensions. When such events arise, uncertainty surrounds succession issues in governance, hence, there is need to put in place modalities to assuage the problems of successions for enhanced governance. In the light of the above, the following strategies are highlighted.

**Observance of the Rule of Law:** The rule of law as propounded by the British jurist and philosopher – A.V. Dicey in 1885 rein-enforces the principle of supremacy of the law irrespective of political or socio-cultural strata. It also includes the protection of individual rights in any given society. These principles when upheld and duly observed, will drastically reduce the challenges of succession policy in Nigeria. Raz (2019) and Thomas (2020) agreed to this view in their argument that compliance with the rule of law is inculcating positive attitude towards public policy and acts as guide to government officials.

**Adherence to constitution:** The constitution is the law that keeps the people, values, rules and the institutions together, otherwise, chaotic and brutal society will be the order of the day. It is thus expected that everyone /citizen should give the constitution a first-class priority. Adherence to constitutional provisions will regulate a lot of abnormalises associated with succession issues. To Jinadu (2008) smooth and unified political succession entails observance of rules and regulations, and Chikerema and Nzewi (2020) added that when such observance is followed religiously for a long period of time; it becomes an embedded norm that would have been culturised into political, administrative and organised system.

**Succession planning:** Effective succession planning in governance is an ongoing dynamic process, not static, or a onetime objective. It not only empowers leaders to achieve professionalism but also critical to ensuring the right people are in the right roles at all times. It implies making adequate arrangement that can facilitate effective governance and administrative progression. It is an efficient way of preserving institutional reminiscence and recovering institutional information, with which the best candidates/ individuals are put in place to manage public affairs and their resources (Priya and Sudhamathi, 2018). The importance of succession planning cannot therefore be underestimated as, it helps in proper identification of leaders, and positions, build competence and efficiency. Seniwoliba (2015) opined that succession plays role of implementation of a well-concerted programme for a deep-rooted organisation; thus, Okhawere, et al (2016) concluded that succession policy is not haphazard but rather a systematic process that has the future in motion. It is a key factor in government continuity (Okeke, 2021). It is evident that a mismatch between capability and roles decrease performance and lead to leadership irrelevances. Succession planning should therefore remain a proactive practice in governance and should not be neglected.

**Building Strong Institutions:** Building strong institutions is the sixth of the Sustainable Development Goals (SDGs) of the United Nations which Nigeria subscribes to; it is crucial to good governance and in turn improves development of a country. Building strong institutions include but not limited to the following: giving government agencies, parastatals and bodies, structures, systems, processes, and procedures, the power to enforce and apply laws, for the good of the people. These institutions can only contribute meaningfully to governance if they are genuinely established and allowed to function judiciously without undue government interferences.

## **Conclusion**

The paper investigated succession policy and governance in Nigeria with focus on challenges and prospects. The paper used the system theory to espouse the impact of

succession policy on governance. It was argued that though Nigeria government has made some efforts towards curbing succession policy challenges much is still left to be desired. The paper established non-compliance to succession policy, lack of succession planning and politics of deceptions coupled with sit-tight-syndrome and weak institutions among various factors responsible for the ineffectiveness of succession policy in Nigeria. There are strong indications for improvement in succession policy processes with the widespread knowledge of the advantages of full compliance to succession policy in Nigeria. This is possible with more commitment to peaceful, smooth, hectic-free political and administrative succession or transition processes from one person/administration to another. This will ensure good governance, development and stability in succession issues in Nigeria.

### *Recommendations*

Based on the above discussion, the followings are therefore recommended:

Succession policies and the Nigeria constitution should be revisited with a view to eliminating all forms of identifiable lacunas preventing its effective implementation.

Succession policy as well as the rule of law should be adhered to by every Nigerian notwithstanding their status.

The Nigeria government should further strengthen and rebuild its institutions to meet global Standard through transformational orientation or re-orientation.

‘Politricking’ and all forms of politics of deception should be discouraged and shunned in its entirety by strictly and responsibly enforcing succession policy.

Succession planning and process should be simplified and decentralized.

The use of Information Technology should be used to enhance learning and adaptability of leaders from global activities and relationships in more effective way.

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## **CIRCULAR ECONOMY IN THE FOOD AND DRINKS SECTOR- A ROMANIAN OVERVIEW**

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**Abstract:** *In recent years, the concept of circular economy has gained increasing traction around the world to create sustainable economic growth and reduce waste and environmental impact. Romania, like many other countries, has been working to adopt circular economy principles and practices in its own economy, with varying degrees of success. My research consists of a document analysis of the most recent Government Decision, no. 1172/2022 regarding the National Strategy for circular economy. I focused my research on the food and drinks sector, the main research objectives being to identify the problems and the solutions to the problems from the circular economy perspective in the sector mentioned. The main problems consist of low recycling rates, high food waste rates and the main solutions are found in education for a sustainable development to reduce the food waste and reducing the use of plastic in packaging and promoting the use of recycled materials.*

**Keywords:** *circular economy, sustainability, Romania, food sector.*

### **Introduction**

Sustainability and circular economy are two intertwined concepts that have gained immense importance in recent years. Sustainability or the sustainable development was defined as follows: “Sustainable development is development that meets the needs of the present without compromising the ability of the future to meet their own” (Castle, et al., 1996). It involves finding ways to balance economic, social and environmental considerations in order to create a better world. Circular economy, on the other hand, is an economic model that aims to minimize waste and maximize the use of resources (European Parliament, 2022). It involves creating a close-loop system where materials are used, reused and recycled in order to reduce the amount of waste that is generated. This not only helps to conserve natural resources, but also reduces greenhouse gas emissions and other negative environmental impacts. Together, sustainability and circular economy have the potential to create a more sustainable future for all. By promoting sustainable practices and reducing waste, we can work towards a world that is more equitable, prosperous and environmentally conscious.

The circular economy is gaining increasing attention worldwide, as more and more countries strive to achieve sustainable economic growth while reducing their environmental impact. One of the most significant sectors contributing to waste and greenhouse gas emissions is the food and drinks industry. Romania, as a member state of the European Union, has committed to promoting sustainable development and reducing its carbon footprint.

This article provides an overview of Romania's circular economy strategy in the food and drinks sector. It is especially important to study this sector since the food and beverage industry produces vast amounts of waste and by adopting circular economy principles, businesses in this sector can minimize their waste and carbon footprint by reducing their environmental impact. Through this overview, we aim to highlight the importance of adopting circular economy principles in the food and drinks sector in Romania and to inspire further discussion and action towards a more sustainable future.

### **Research methodology**

In this article I decided to analyse the way in which Romania aligns with the circular economy principles in the food and drinks sector and I analysed the Government Decision no. 1172/2022 for the National Strategy regarding circular economy to observe what are the problems and possible solutions regarding the sector mentioned. The first stage of my research regards the theoretical research. In this stage I studied articles, specialized books and other materials regarding the circular economy phenomenon. The second stage consists of the analysis of the official document mentioned, the Government Decision no. 1172/2022.

The scope of my research is to observe if Romania recognizes the problems regarding circular economy in the food and drinks sector and what action it takes to minimize the problems. Therefore, I came up with the following research objectives:

*O1: To identify the main problems regarding circular economy in Romania in the food and drinks sector*

*O2: To identify the solutions to the problems identified in the food and drinks sector in Romania regarding circular economy.*

The research method used in this article is the document analysis (or content analysis), this research method being suitable for the analysis of "books, blogs, official papers and reports" (Leavy, 2017). It is important to highlight the fact that my research is a qualitative one, the main scope being to discover the real state of the phenomenon from official documents.

### **Circular economy- definitions**

The first step in understanding the concept of circular economy is understanding the definitions given in the literature and in the present section I am going to mention some of the most important definitions given to this concept, this selection not being exhaustive. An author (Gosh, 2020) described circular economy as being "a systems-level approach to economic development and a paradigm shift from the traditional concept of linear economy model of extract-produce-consume-dispose- deplete (epcd<sup>2</sup>) to an elevated echelon of achieving zero waste by resource conservation through changed concept of design of production processes and materials selection for higher life cycle, conservation of all kinds of resources, material and/or energy recovery all through the processes, and at the end of the life cycle for a specific use of the product will be still fit to be utilised as the input materials to a new production process in the value chain with a close loop materials cycles

that improves resource efficiency, resource productivity, benefit businesses and the society, creates employment opportunities and provides environmental sustainability”.

The European Environment Agency says about circular economy that “It provides opportunities to create well-being, growth, and jobs, while reducing environmental pressures. The concept can, in principle, be applied to all kinds of natural resources, including biotic and abiotic materials, water, and land” (European Environment Agency, 2016).

Another author (Mitchell, 2015) considers that “a circular economy is an alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extracting the maximum value from them while in use, then recovering and reusing products and materials”. The European Commission states that the circular economy is an economy where “the value of products, materials, and resources is maintained in the economy for as long as possible, and the generation of waste minimized” and the transition to a circular economy is “an essential contribution to the EU’s efforts to develop a sustainable, low-carbon, resource-efficient, and competitive economy” (European Commission, 2015).

### **Circularity and the “R principles”**

Circularity is defined as a “performance that indicates to what extent raw materials, parts and final products are restored or regenerated into technical or biological flows” (Vlajic, Cunningham, Hsiao, Smyth, & Walker, 2021). But the problem and the question that arises is how can we achieve circularity? In the literature it is said that circularity can be achieved by “creating a closed-loop supply chain, where reverse flows cycle back in the system, to the organisations where they started” (Vlajic, Mijailovic, & Bogdanova, Creating loops with value recovery: empirical study of fresh food supply chains, 2018) or by “open-loop supply chains, where reverse flows cycle and cascade to alternative supply chains in the same sector” (Weetman, 2017). In the literature I identified different R principles frameworks: the 4R principles framework (European Parliament and the Council, 2008), the 5R principles framework (Doppelt, 2010) and many others, but in this section I am going to focus on 8 principles that contribute to a sustainable development and to the development of circular economy.

*The first R. Rethink:* To rethink means a lot of things and it includes a lot of different actions such as “reconceptualization of ideas, processes, constitutive elements of Circular Economy and other R principles” (Morsetto, 2020). For circular economy to be effective and to really exist, it is important to rethink the production system and also the consumption system. In order to rethink the production, it is demanded to develop new and modern business models (Ludeke-Freund, Gold, & Bocken, 2019), new recycling and reprocessing systems and even new and innovative products (Pagell, Wu, & Murthy, 2007).

*The second R. Redesign:* When we think about redesign the first thing that comes into our minds is change, innovation, improvement even. To redesign means to improve or change for the better the design of products, processes or services in order to “enable input from recycled materials, extend the useful life of products and enable easy recovery of products, components and materials and their return to biological and technical cycles” (Doppelt, 2010). To redesign meant to come closer to sustainability, to improve the economy while



reducing the environmental impact and taking into consideration the social impact of a company.

*The third R. Reduce:* In order to apply the “reduce” principle, a lot of things must be taken into account such as “strategies that aim to reduce inefficient use of resources in the pre-manufacturing phase, inefficient use of energy and the use of virgin materials in manufacturing, generation of toxic by-products in manufacturing and post-manufacturing phase” (Vlajic, Cunningham, Hsiao, Smyth, & Walker, 2021). To optimise the use of resources and to help reduce the use of natural resources, in the literature was suggested to use new technologies like “The Internet of Things, Block-chain and robotisation” (Ivanov, 2020).

*The fourth R. Replace:* It is obvious that this principle aims to replace the existing strategies, technologies, materials and others with more sustainable ones in order to achieve a higher degree of sustainability. Nowadays, there is a global tendency to replace wood and construction materials with more sustainable ones like bamboo for example, and even in the food industry it is tried to replace the meat with more sustainable plant-based alternatives and to replace the packaging with ones made out of recycled materials. Another aspect that needs replacing and it is a global trend to try to make a change is in the renewable energy sector where “energy sources based on the use of sun, wind, waves and residual heat from industry” (Bauwens, Hekkert, & Kirchherr, 2020) is being used.

*The fifth R. Reuse:* The “reuse” principle is understood in different ways in the literature, but it basically means “the recovery of products and components that result from commercial returns, lease returns, warranty returns or returns due to overstocking” (Vlajic, Mijailovic, & Bogdanova, 2018). Some of the main activities linked to “reuse” are “re-labelling, repacking, repairing or refurbishing” (Vlajic, Cunningham, Hsiao, Smyth, & Walker, 2021) and “resale or donations of second-hand or surplus products” (Weetman, 2017).

*The sixth R. Repurpose:* To repurpose means to use something for another function, and the application of this principle is considered difficult and challenging: “while many parts can be repurposed in a variety of products, not many products can be easily repurposed; moreover, the scale of an operation is small and traceability of parts and products can be lost” (Morsetto, 2020).

*The seventh R. Recycle:* The recycling refers to “a recovery of materials that do not retain the functionality of used parts or products” (Vlajic, Cunningham, Hsiao, Smyth, & Walker, 2021). The recycling strategy is a challenging one especially because it is based on the organised collection of the waste, this being especially important and also difficult to achieve.

*The eighth R. Recovery:* The recovery of other resources takes into account the natural renewable sources that are being used both in production and consumption such as energy, water, soil and so on.

### **National Strategy regarding the circular economy- food and drinks sector**

In Romania, the adoption of circular economy practices has been slow, but in recent years there has been increasing interest and efforts to promote and implement the principles of circular economy in various sectors of economy. One key challenge facing Romania in the implementation of circular economy is the lack of awareness and understanding among the

general public and many businesses about the benefits of the circular economy and how it can be applied in practice. Thus, our hope is that, by adopting the most recent Government Decision, some of the problems are going to be solved.

In September 2022, in Romania was adopted the Government Decision no. 1172/2022 for the National Strategy regarding circular economy. This strategy will be complemented by an Action Plan which will include specific actions for sectors with high circularity potential.

The Strategy has some main directions of action which I am going to briefly mention. First, the aim is to reduce the consumption of raw materials through more sustainable extractions of raw materials and through recycling and recovery activities. Secondly, to reduce the consumption of consumer goods by extending the life of products, applying a circular design and material efficiency. Thirdly, to reduce the environmental impact of production activities by applying more innovative and environmentally friendly technologies and processes, by promoting digitalisation and by favoring renewable energy. Fourthly, it is intended to reduce the environmental impact of wastewater management and disposal activities by promoting waste prevention, promoting the waste sorting activities. Finally, to improve the policy coherence and governance, communication and collaboration between local, regional and national authorities.

In the following section, I am going to present the main findings from the Government Decision no. 1172/2022 regarding the food, drinks and tobacco sector, as part of consumption goods.

*General overview:* The food, beverages and tobacco sector is the largest production sector in Romania, in 2020 Romania produced 24% of the mentioned products (Guvernul României, 2022), the sector accounting for 5% of the GDP. The most important thing is that, according to the Strategy, over 4.5 million Romanians struggle purchasing daily food, but the food waste is 2.55 million tons every year. Of course some of the most important actions that could be taken in this situation to achieve circularity is the reduction of food waste, alongside eco-labelling, eco-packaging and composting food-waste to achieve recovery.

*Problems identified:* The biggest problem related to the transition from the linear economy to a circular economy consist of low recycling rates, Romania having among the lowest recycling rates in Europe for plastic, paper or glass. Another important problem is the one of food waste, the generation being very high, while the separate collection of waste remains very low. According to the 2019 BIOREGIO report (Guvernul României, 2022), “the annual amount of food waste in Romania corresponds to 129 kg per capita, while the amount of food waste in France is only 29 kg per capita”, while food waste corresponds to 67% of the municipal biological waste. The subsequent problem is that in 2020, only 18 kg of biological waste per capita was recycled, while the EU average is 90 kg per capita. It is known that recycling and sorting technologies exist in Romania, but they are not really being used because the education regarding the environment is lacking. Even though some environmental-related subjects have been in school for a while, they were optional and not many students attended, and only recently through the Government Ordinance no. 6/2021 „the central authority in the filed of education, through decentralized public services, carries out information activities on the prevention of waste generation in general and the

prevention and reduction of the impact of single-use plastic products” (Guvernul României, 2022). I personally found really concerning that in 2019, the Romanians consumed 106 liters of bottled water per capita. In comparison, in Sweden, Finland and Denmark, the consumption of bottled water is less than 20 liters per capita.

*Possible solutions:* The possible solutions are divided in stages. In the stage of production and distribution, the Strategy suggests that the most important action to take is the replacement of packaging and switching to the use of recycled materials. In order to achieve this, it could be introduced the mandatory eco-design for packaging and eco-labelling of products. In the consumption phase, the most important issue to be dealt with is the food waste prevention and possible solutions are encouraging food donations and promoting this strategy through education. In order to encourage food donations, the Strategy suggests “tax credits and deductions and remodelling waste taxes to make donations more economically advantageous than disposal”. Moreover, the prohibition of the use of certain single-use plastic items is important and increases circularity in the food value chain. At the same time, the revised drinking water Directive of 2021 needs to be incorporated in the Romanian legislation which “provides measures to promote the consumption of tap water, such as the free supply of water in public administrations and public buildings, or free of charge or for a reduced service fee for customers in restaurants, canteens and catering services” (Guvernul României, 2022). Regarding the use of single-use packaging in food and drink consumption, the Governance Ordinance no. 6/2021 on reducing the impact of certain plastic products on the environment is already initiated. In addition to this, it is important for Romania to improve the infrastructure for separate collection, especially by engaging the citizens to take part in this action. A possible solution suggested in the Strategy is “to promote and develop an infrastructure dedicated to composting at home or jointly”. Moreover, it is important to introduce awareness and education programs on waste management which can be prepared at national level through partnerships such as with NGOs and also with the private sector.

## **Conclusions**

The circular economy is an economic system with the aim of reducing waste and promoting sustainability by minimizing the consumption of natural resources and maximizing the use of renewable resources. The food and drinks sector is one of the most significant contributors to waste and greenhouse gas emissions globally, and Romania is taking small steps to having a more circular economy. In this article I highlighted some of the main problems Romania is facing at the moment regarding circular economy in the food, drinks and tobacco sector and some solutions which could be applied. The most important area where actions must be taken is reducing food waste. In this sector, Romania could introduce more policies and initiatives that encourage consumers to reduce food waste by buying only what they need, and businesses to donate unsold food to charities. Another area where action must be taken is promoting the use of recyclable and recycled packaging. Nevertheless, it is extremely important to encourage the use of renewable energy because the food and beverage industry is a significant energy consumer and using renewable energy sources can reduce its environmental impact by using energy sources such as solar, wind and hydropower. Even though there are challenges to implementing a circular

economy in the food and drinks sector, such as changing consumer behaviour and investing in new technologies, the benefits far outweigh the costs. As such, it is essential for businesses and policymakers in Romania to prioritize the circular economy and to work towards a more sustainable future.

In conclusion, this article provides an overview of Romania's circular economy strategy in the food, drinks and tobacco sector and highlights the importance of adopting circular economy principles to promote sustainable economic growth while reducing environmental impact.

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## ETHICS MANAGEMENT IN HEALTHCARE INSTITUTIONS - SOME RESEARCH DIRECTIONS

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**Abstract:** *In a demarche to explore the specialized literature, our paper makes a brief theoretical review of the aspects that need to be approached holistically and integrated into the creation and implementation of the component elements of the ethics management system in the institutions of the healthcare sector. The analysed issues may also be subjects of interest for further research to offer a better understanding and effective tools for the practice and performance of healthcare organizations.*

**Keywords:** *ethics management, healthcare institutions*

### Introduction

The hospital institution's mission to provide a medical service of the highest quality standards for patients requires the promotion and compliance of essential ethics principles by all parties involved in its delivery. On the one hand, there are, as a landmark, the principles established by the Belmont Report published in 1976 by the *National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research* (The Belmont Report, HHS.gov, www.hhs.gov), universally recognized in the field of medical ethics - *respect for persons, beneficence and equity*. On the other hand, other ethical principles are required to be promoted by managers and employees within the organization (independent of its activity field) and in all relationships with external stakeholders (LaRue Hosmer, cited by Williams, 2008: 130-131 and Kreiner, 2009: 131): “*self-interest on long term*” (avoidance of any action that is not in the [good/correct/beneficial] personal or organizational interest); “*personal virtue*” (not engaging in actions that do not reflect moral virtues); “*religious injunctions*” (not undertaking actions that could affect the sense of community, the result of collaborating to achieve a common goal); “*government requirements*” (not accepting actions that lead to the violation of the law); “*utilitarian benefits*” (not promoting actions that do not contribute to the generation of the greatest good for society); “*individual rights*” (not promoting actions that do not respect the agreed rights of others); “*distributive justice*” (avoiding actions that could harm the least advantaged people; protecting the vulnerable from the point of view of income, education, lack of a job); “*universal rules*” (not opting for actions that would not be appreciated if they were done by others who would be in similar situations); “*economic efficiency*” (undertaking actions that always maximize profit, respecting legal and market conditions); “*contributive liberty*” (to not take actions that would limit everyone's right to self-development and self-fulfillment).

At the same time, managers must build an ethics management system that guarantees the fulfilment of multiple moral responsibilities towards all internal and external stakeholders (patients/clients, employees, authorities, national and international accreditation bodies, suppliers, business partners, professional associations, research institutes, educational institutions, competitors, the wider community), to meet their moral expectations, in conditions of effectiveness and efficiency. Just like any organization, the hospital institution must face the demands and challenges of a socio-economic, political and technological environment in continuous dynamics. In this context, addressing ethical issues inherent in the activity requires a robust and modern ethics infrastructure, systems and mechanisms that enable their timely and appropriate resolution to minimize any legal and ethical risk.

The palette of academic studies and research, as well as good practices in the field of ethics management, is comprehensive and addresses from general aspects of organizational ethics to specific elements of its management (methods and tools for managing ethics, managerial ethics models and best practices). The review of these concerns constitutes a necessary starting point for building the framework necessary for research and the substantiation of the ethics management system and model in healthcare institutions, mainly that of hospital units, a subject of interest in the doctoral research carried out by the author of this paper.

Ethics in the healthcare sector is a subject that concerns many researchers. The work titled "*Healthcare reform: ethics and politics*" (Engström&Robison (Eds), 2006) highlights the moral implications of market-led reform - the moral crisis in the healthcare system but also aspects related to ethics, justice, equity, arguments for universal principles in achieving reform in the health care system (cooperative beneficence, equity...), ethical and political implications of international comparisons, best practices - citizens and clients: establishing the ethical foundation of healthcare systems in Germany and the USA (Engström&Robison (Eds), 2006). Cribb (2005) also addresses the importance of ethics in the healthcare system in his book, titled "*Health and the Good Society. Setting Healthcare Ethics in Social Context*".

In a demarche to explore the specialized literature, our paper presents a brief theoretical review of the aspects that need to be approached holistically and integrated into the foundation and implementation of the ethics management system and model in the institutions of the healthcare sector and in the research that investigates this critical topic in the organizational practice.

### **Specific elements in the management of organizational ethics - approaches from the literature**

The subject of organizational ethics is addressed in almost all current sources of documentation on management and organizational behavior. The issue of ethics is detailed in depth in a separate chapter or in each section that presents specific managerial activities, decisions, roles, responsibilities and behaviors, illustrating the indissoluble relationship between the observance of ethical principles and the mission of the organization, the assumption of social responsibility obligations, good collaboration with stakeholders and implicitly achieving high organizational performance.

At the same time, these works are valuable in supporting managers, making them aware that concrete and effective systems, measures, mechanisms or managerial actions are

needed for ethics to become a certainty in the organization, offering them the needed knowledge to create and to implement them to this end. Kreitner (2009:132-134) identifies four necessary components in encouraging ethical behavior in the organization, which can be significant in an "integrated ethics program" - ethics training programs, the existence of ethics specialists ("ethics advocates") with a role in ensuring ethics in the decision-making process at the superior managerial level, codes of ethics and whistleblowing practice.

Hitt *et al.* (2012: 31-33) consider that managers could consider four basic frameworks/approaches in the decision-making process to ensure their ethical character (the utilitarian approach, the moral rights approach, the universal approach and the justice approach). These approaches can be a "support for refining one's approach when pressures arise" (Hitt *et al.*, 2012: 45). The mentioned authors emphasize that in achieving this goal, "there is no substitute for taking personal responsibility for the decisions" taken (Hitt *et al.*, 2012:45).

Also, in their view, at the organization level, the following elements are defining for ensuring the ethical character of decisions: culture, adoption of codes of ethical conduct and their successful implementation (consolidation of the code and communication to employees that the organization takes compliance with it seriously), communication of ethics standards, employee training programs on ethics, employee reward and recognition programs for ethical behavior and compliance with the code of ethics, implementation of whistleblowing programs.

Not least on this list, playing a critical role in ensuring ethics is the personal example that senior managers set for others (how they personally behave or position themselves regarding what is ethical (reward) or unethical (punishment or ignoring), taking into account that by the nature of the authority and power held can influence the behavior of others (Williams, 2008). Other managerial measures considered beneficial in promoting ethics in the decision-making process are those highlighted by Williams (2008: 132): "careful selection and hiring ethical people, establishing a specific code of ethics, training employees to make ethical decisions and creating an ethical climate".

The *organizational controls* are essential in supporting ethical conduct (Plunkett *et al.*, 2008: 68-69) - senior managers must be committed to creating a corporate culture that promotes ethical behavior, ensures effective codes of ethics, and "sufficient specific" to guide staff behavior and to be reinforced by the own managers' example, and to implement compliance programs to communicate and strengthen codes of ethics and ethical conduct. Organizational leaders can influence (in the sense of minimizing) the frequency and severity of unethical behaviors by creating an ethical culture (Hellriegel&Slocum, 2008: 62) in which "ethical behavior is the norm" (Gomez-Mejia&Balkin, 2012: 81). Ethics management relies on training programs that help employees manage the ethical dilemmas they face, on ethics structures (ethics guidelines, organizational entities with a role in monitoring the application of these guidelines - as the ethics officer or/and ethics committee), and whistleblowing policies (reporting by employees of practices they perceive as illegal or unethical in the organization) (Gomez-Mejia&Balkin, 2012: 82-83). In business ethics literature, we mention the reference work of Treviño&Nelson (2011), treating "ethics as organizational culture" (Treviño&Nelson, 2011: 207). In the view of the above mentioned authors, managing ethics involves the existence of "ethics office", "ethics and compliance officers", "the ethics infrastructure", "the corporate ethics committee" (2011: 2011-215). To this purpose, under the ethics infrastructure, a good ethics

communication system is needed (2011: 2015-238). Adopting codes of conduct (2011: 2027), organizing ethics training programs (2011: 230), implementing “formal and informal systems for resolving questions and reporting of ethical issues” (2011: 235), “using the reward system to reinforce the ethics message” (2011: 238), “evaluating the ethics program” (2011: 239) and a value-approach (by integration of the legal compliance in the values system of the organization) (2011: 245) are necessary parts of ethics management.

We appreciate that these aspects are necessary components in creating and consolidating the ethics management system in any organization, regardless of its activity sector.

Kaptein (2015) considers and analyzes the specific components of the ethics program in correlation with the organizational culture's dimensions. Other authors also bring to attention the practices of the ethics program in the organization (Majluf&Navarrete, 2011). Suhonen *et al.* (2011) conducted an extensive and valuable literature review on healthcare organizational ethics, management, and leadership aspects (ethical challenges and dilemmas in practice, employee moral distress, ethics climate and working environment).

We also identified numerous academic papers and studies on:

- ethics in the healthcare system (Weinstein&Nesbitt, 2007; Loewy&Loewy, 2004), ethical principles that must be respected in the healthcare system (Ashcroft, 2007), ethical approaches and theories and how they are applied, the use of the human rights paradigm in health ethics (Austin, 2001), ethics in healthcare organizations (Spencer&Mills, 1999), ethical analysis in public health (Roberts&Michael, 2002); the need for "branding" of ethics (Boysen *et al.*, 2011) or the creation of reputation in healthcare organizations based on "trust prescription" with service consumers (Shore, 2005), nurses' perceptions of ethics in healthcare services health and medical research (Benhamou-Jantelet, 2001);
- organizational bodies with a specific role in monitoring ethics within the organization - ethics committees (Farber Post *et al.*, 2007);
- training the ethical skills in healthcare institutions, teaching ethics to healthcare personnel (Sporrong *et al.*, 2007; Hanson, 2005);
- ethical decisions and their practice in the healthcare system (Slosar, 2004; Devettere, 2010).

Other general references (including from business practice) refer to ethical codes whose role requires analysis of the theoretical foundation of the topic of interest, exemplifying good practices, creating work tools and proposing models: Bull *et al.*, 2012; Svensson & Wood, 2004, but also the works of Reamer (2000; 2007) about the ethics audit in social assistance services, or the value and application of an ethics audit in the organization (McAuliffe, 2005; Hofmann, 2006; Weber, 2008; Krell, 2010), as well as reports of best practices in conducting an ethics audit in a hospital (Landman *et al.*, 2001); models of organizational ethics (Svensson&Wood, 2008).

A possible holistic, integrative model regarding the management of the ethics system in healthcare institutions is proposed in the literature by Poroach&Agheorghiesei (2018). Based on the specialized literature, the model is substantiated taking into account the components and practices in the management of ethics in organizations, and the connections between them, in a logical flow, in which the stages are presented iteratively towards the planned result to be obtained by implementing the model. In essence, analyzing it, it can be noticed that the phases and elements of the model illustrate the necessity to



apply the basic managerial functions of planning, organizing, leading and controlling to achieve the organizational ethics objective.

In synthesis, the elements of the proposed model of Poroach&Agheorghiesei(2018) are: *“the understanding and complete assumption by managers of their managerial roles in strengthening ethics; the connection between the organization's mission/vision and ethics; completing the stage regarding the identification of stakeholders' needs and expectations and the evaluation of the context (internal and external challenges) and organizational capabilities; the diagnosis of the ethical culture; the ethical training of the staff; the adoption of an ethical reasoning system for addressing ethical issues in different functional areas; the implementation of the program of ethics; the creation of the ethics infrastructure (ethics policies and strategies, design of the decision-making system, communication channels, ethics officer /advisor/, ethics committee, ethics hotline, code of ethics/code of ethical/professional conduct, feedback, rewards and punishments); ethics teams, partnerships and networks; ethical auditing and public reporting; best practices; [the obtained] result (mission accomplishment, quality, stakeholder satisfaction, efficiency, institutional/public accreditation/recognition)”*. All these components should be supported by ongoing counselling and training.

### **Studies on ethics management in healthcare institutions in Romania**

In Romania, empirical studies on the policies and management of ethics in the healthcare system were carried out mainly in the period 2010-2013, within the project "Postdoctoral studies in the field of ethics of health policies" (POSDRU/89/1.5/S/61879), carried out by the Grigore T. Popa University of Medicine and Pharmacy from Iași, Romania. Some of them, of specific interest to our research, are cited below.

Agheorghiesei (Corodeanu)&Copoeru (2013) critically analyze how patient satisfaction is evaluated in Romanian hospitals, considering it as *being “a matter of ethics from the perspective of hospital institution accreditation”*. Agheorghiesei *et al.* (2013) and Agheorghiesei *et al.* (2014) analyzed the accreditation standards of hospital institutions in Romania from the perspective of the need to include the ethics audit in the references in the accreditation assessment criteria.

It is also worth mentioning the qualitative exploratory research on ethics management in Romanian hospital units (Poroach&Agheorghiesei, 2015) conducted on an interview basis among hospital managers. The research issues analysed in the study are: *„the existence of an ethics management system in the institution (concerns for ethics, priorities; the existence of the formal system of ethics management/ an effective and efficient ethics program in the institution where the respondent works and what it consists of this system; what methods and tools are applied in ethics management; the extent of frequent confrontation with ethical dilemmas/ethical conflicts in the activity and what type of dilemmas frequently appear, how to resolve ethical dilemmas that arise during the activity, how to react in these cases, which methods are applied, how decisions that have ethical implications are made, who is in charge of solving them (if there are possible collaborations); information regarding the extent to which several ethical elements are operational/functional in the institution (policies of ethics, specific ethics policies and procedures (including ethics codes), ethics committees, ethical culture (value system with a strong core of ethical values, shared and assumed by employees), ethical leadership*

(managers represent a model of ethical behaviour in among employees, actively promote ethical values and principles within their institution), training/training programs on ethics topics, systems for reporting unethical behaviours (telephone, audiences, responsible), meetings and informative materials on ethics issues, systems of monitoring and penalizing unethical behaviours; the application of the specific components of an ethics program (identified by Kaptein, 2015) in the institution (lines for reporting unethical behaviours, policies to motivate ethical behaviour, training and communication programs on ethics, codes of ethics, ethics policies, ethical monitoring and auditing)".

The main conclusion generated by the research is that „the management of the ethics system in hospital units in Romania is strongly instrumentalized and mainly limited to the activity of the Ethics Council (an organisational body established by law to function in any hospital unit), so the holistic, integrated approach is missing.“

This conclusion can be a valid argument and starting point for extensive research on ethics management in healthcare institutions issues, aiming to build a specific and realistic model to be implemented with maximum results in the Romanian hospital units pursuing its mission and addressing stakeholders' expectations.

### **A possible further research direction - integrative research on the topic of ethics management in the hospital institutions**

Ethics management is an area that requires careful attention and continuous improvement. All employees need guidance to behave correctly and specific training to acquire ethical competence at the workplace, cope successfully with ethical dilemmas in their activity and make ethical decisions for the benefit of their organisation and stakeholders, but also for their own.

Superior managers should be aware that ethics management is a subsystem alongside other key-managerial subsystems and functional areas of equal importance and impact on overall organizational performance. Therefore they must invest resources and personal commitment to ensure the ethical performance of their organization. Planning, organizing, leading and controlling an effective and efficient ethics infrastructure (organizational policies, ethical culture, ethical leadership, adequate training, motivating and rewarding systems for ethical conduct, and codes of ethical conduct) are not only simple managerial functions to be carried out with high responsibility but also an indissoluble part of their managerial mission.

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## **APPLICATION OF THE BUSINESS JUDGMENT RULE DOCTRINE IN INDONESIAN COMPANIES**

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**Abstract:** *The Business Judgment Rule Doctrine is a doctrine that provides protection to Directors who have good faith in the loss of the company. The point is that as long as the Board of Directors acts in good faith and acts solely for the benefit of the company, but it turns out that the company continues to suffer losses, it does not necessarily become the personal responsibility of the Board of Directors. Therefore, the Board of Directors cannot be held responsible for the company's losses if the Board of Directors in taking action has fulfilled all of its obligations with the principles of Good Corporate Governance (GCG). If all the obligations and GCG principles have been fulfilled, then the Board of Directors is categorized as having good faith and cannot be declared wrong. This research is normative legal research with a legal approach. The results of the author's study, in the context of the Business Judgment Rule Doctrine, the losses that occur are normal or reasonable business losses and therefore the company is responsible, and no one can be punished if there is no mistake.*

**Keywords:** *Doctrine of Business Judgment Rule, Company, Director of Good Faith, Good Corporate Governance (GCG), Legal Protection.*

### **Introduction**

Good governance or "good corporate governance (GCG)" is important to implement in every company management including State-Owned Enterprises (BUMN). One important issue that will never be left behind in the management of a limited liability company is regarding the accountability of the Board of Directors and the principle of business judgment rule which is a protection for a company, especially State-Owned Enterprises (BUMN), whose capital is partly owned by the state. As BUMN, paradigmatically as an extension of the state to control important production branches for the state, as actors in the national economy must also carry out social functions for the welfare of the people who are also profit-oriented (Harun, 2019). State-Owned Enterprises (BUMN) are business entities whose capital is wholly or substantially owned by the state through direct equity participation originating from separated state assets. SOEs are divided into public companies (Perum) and state-owned companies (Persero). Perum is a BUMN whose capital is wholly owned by the state and is not divided into shares with the aim of public benefit in the form of providing high quality goods and services and pursuing profits based

on the principles of corporate management. Meanwhile, a Persero is a State Owned Enterprise whose entire or at least 51% (fifty one percent) shares are owned by the state with the main objective of pursuing profit. Persero, hereinafter referred to as Limited Liability Company (PT), is a legal entity which is a capital partnership, established based on an agreement, conducting business activities with authorized capital which is entirely divided into shares and fulfills the requirements stipulated in the Law (UU) and its implementing regulations.

However, along the way, sometimes BUMN businesses are faced with statutory regulations, if they cause state financial losses. The Board of Directors is faced with legal consequences as stated in Article 2 and/or Article 3 of Law No. 20 of 2001 in conjunction with Law No. 31 of 1999 concerning the Eradication of Corruption Crimes (Tipikor Law), SOE management and employees can be held criminally responsible for alleged corruption because it causes losses to state finances. The board of directors of the company is a fiduciary who must behave like a trustee. Here the Board of Directors has a fiduciary position in managing the company and the relationship mechanism is fair. According to the experience of business people in common law countries, this relationship can be based on the theory of fiduciary duty (Nasution, 2009). The Board of Directors is the lifeblood of a company that acts as a board and manager of the company with good or good corporate governance in good faith and full responsibility. The actions of the directors in good faith and responsibility are what is protected by law, of course as long as these actions can be proven by avoiding actions that benefit the directors personally in making important decisions that result in the company experiencing losses.

However, if in making decisions about the company, the directors have acted carefully, in good faith and with full responsibility, then the directors have been protected by the principles of the Business Judgment Rule even though the decision could be detrimental to the company. Indeed, the Board of Directors as management and company manager is obliged to manage the company well (good corporate governance) with good faith and full responsibility as mandated by article 97 of Law Number 40 of 2007 concerning Limited Liability Companies that the management as referred to in paragraph 1 must carried out by each member of the board of directors in good faith and with full responsibility (Nasution, 2009). Any actions of the directors based on good faith as mentioned above will certainly be protected by law as long as these actions can be proven by avoiding actions that benefit the directors personally in making an important decision for the company which results in the company experiencing losses.

A director can be held personally liable if the management of the company is not carried out carefully (fiduciary duty) which results in losses for the company. If in making decisions about the company, the directors have done it carefully, in good faith and with full responsibility, then the directors have been protected by the principle of business judgment rule even though the decision has harmed the company. The principle of business judgment rule is a legal principle that originates from the common law system and is a derivative of United States corporate law to protect the Board of Directors in every decision making that is carried out carefully, in good faith and with full responsibility not to be held liable either criminally or legally as well as civil (Fuadi, 2008).

However, it is not uncommon for decisions to be made based on personal interests that result in decisions being illegal. BUMN is one of the bodies that has always been a concern of the Corruption Eradication Commission as a place prone to corruption in Indonesia. In

the event that the Board of Directors conducts a transaction without the approval of the Board of Commissioners and/or the GMS while the matter has been regulated as such, and results in a loss to the company, then of course the action taken by the Board of Directors is an unlawful act which fulfills the element of loss to the state. The second element is enriching oneself or others. If traced, it can be concluded that in the act of enriching there must be an element of obtaining wealth, the acquisition of wealth exceeds the acquisition of legal sources of wealth, and the existence of wealth originating from sources of wealth that are not legal and this act is an act against the law.

Against the background of the Constitutional Court Decision Number 01/PHUPres/XVII/2019 (MK Decision 01) and two Supreme Court Decisions, the author tries to examine in more detail regarding Decision No. 3849/K/Pid.Sus/2019 dated 2 December 2019 on behalf of the Defendant Ferederick ST Siahaan (former Pertamina Finance Director) / (MA Decision 3849) and Decision No. 121K/Pid.Sus/2020 dated 9 March 2020 in the name of the Defendant Karen Agustawan (former Main Director of Pertamina), on the MA 121 Decision, a BUMN subsidiary which is not actually a BUMN. As for BUMD subsidiaries, they have not been explicitly defined in a statutory regulation, although in principle they should have a similar definition to the definition of a BUMN subsidiary.

It is interesting to study by the author, because the District Court and the High Court consider the defendant legally and convincingly guilty of committing the crime of corruption together. But it is different from the decision of the Supreme Court (MA), which in its consideration stated that the finances of the BUMN subsidiary were not included in the state finances as in the Constitutional Court Decision No. 01/PHUPres/XVII/2019. This means that the losses experienced by PT Pertamina Hulu Energi, which is a subsidiary of PT Pertamina (Persero), are not a loss to the state's finances. In addition, the Panel of Judges (Suhadi, Prof. Krisna Harahap, Prof. Abdul Latif, Sofyan Sitompul, and Prof. Mohammad Askin) also considered that it is a fact that oil companies are full of risks, and there are no definite parameters that determine successful exploration or fail. Based on this case, the rule of law regarding losses due to the implementation of the Business Judgment Rule was born, not including a crime as long as there is no fraud, conflict of interest, unlawful acts, and intentional mistakes.

## **Result and discussion**

The Business Judgment Rule is actually a doctrine that applies that the decisions of the board of directors regarding company activities cannot be directly disputed by anyone, even if the decisions taken are detrimental to the company. Business Judgment Rule, as the division of responsibilities between the company and its management organs, especially the directors, as well as shareholders in the event that a loss occurs to the company caused by personal or individual errors of the directors. To protect directors with good intentions, the "business judgment rule theory" emerged which is one of the most popular theories to ensure fairness for directors with good intentions. The application of this theory has the main mission, namely to achieve justice, especially for the directors of a company incorporated as a Limited Liability Company in making business decisions (Block et al., 1990).

The background to the enactment of this doctrine is because among all parties in the company, in accordance with their position as a director, it is the directors who are the most powerful and most professional to decide what is best for the company, meanwhile if a business decision from the directors results in a loss for the company, until certain limits can still be tolerated considering that not all businesses have to make a profit. In other words, the company must also bear the business risk, including the risk of loss. Therefore, the director cannot ask for his responsibility just because of wrong reasons in deciding or just because of the company's loss (Fuadi, 2008).

In addition, the author can explain that the birth of the Business Judgment Rule stems from the consideration that the directors are the most authorized and professional party in deciding matters relating to the company. Matters relating to the responsibilities of the Board of Directors have been regulated in Article 92 paragraph (1) of Law Number 40 of 2007 concerning Limited Liability Companies, hereinafter referred to as the Limited Liability Company Law. Management as referred to in paragraph (1) must be carried out by each member of the Board of Directors properly and responsibly, each member of the Board of Directors is personally fully responsible for the loss of the company, the responsibility referred to in paragraph (3) applies jointly and severally to each member of the Board of Directors.

Further arrangements regarding the Business Judgment Rule are contained in Article 97 paragraph 5 of the Limited Liability Company Law. According to Harahap (2021), in his book entitled Limited Liability Company Law, that the quality of the Board of Directors' authority to represent the Company is unlimited and unconditional. In this case the capacity or authority possessed by the Board of Directors represents the Company because of the law. That is, the law itself in this case Article 1 point 5 and Article 92 paragraph (1) UUPT which gives the Board of Directors the authority to represent the Company inside and outside the Court. Therefore, the capacity it has, is the power of attorney or representative of the law (*wettelijke vertegenwoordig, legal or statutory representative*).

The Business Judgment Rule has the objective of providing immunity for individual directors from responsibility and damages resulting from certain decisions. In the litigation process, the Business Judgment Rule is a means used to preserve judicial resources, so that courts are not mired in repeating decisions which are inherently subjective and unsuitable for judges, this is useful because judges are not business people. Business Judgment Rule as the implementation of a broad economic policy law, which is built on economic freedom and encouragement that is useful for taking risks based on sufficient information. In company law in Indonesia Business Judgment Rule as one of the doctrines in company law. However, there is no comprehensive arrangement regarding the Business Judgment Rule in Indonesia. The business judgment rule doctrine has developed in common law legal systems such as the United Kingdom, the United States, Australia and others. This doctrine is a form of protection for directors, the Business Judgment Rule according to Roger LeRoy and Gaylod A. Jentz is: both the power of the corporation and the Directors in making decisions", as long as it is done within the limits of its authority with utmost care and good faith.

Furthermore, Robert Charles Clark viewed this doctrine as a simple rule of directors' business judgment that courts and shareholders would not challenge. Directors cannot be held responsible for the consequences arising from their business decisions. So if it is related to fiduciary obligations, the business judgment rule doctrine is a reaction to



discretionary settlements that arise due to fiduciary obligations for directors in managing the company (Harris, 2010).

However, in carrying out the management authority of the Company, the Board of Directors must comply with the "policy that is deemed appropriate", within the limits specified in Law No. 40 of 2007 concerning Limited Liability Companies and or the Articles of Association. What is meant by policies that are considered appropriate according to the elucidation of Article 92 paragraph (2) are policies which, among other things, are related to skills. Management must be carried out by directors with understanding and skills in accordance with knowledge and experience. If so, in carrying out the management really smart in accordance with the knowledge and experience (Poerwadarminta, 1976).

Indonesia, which adheres to the Civil Law legal system, sources of law are in statutory regulations as the highest hierarchy. So, the court should have the task of interpreting the Business Judgment Rule doctrine, this is because there is no comprehensive regulation regarding this doctrine. What needs to be known and underlined is, even though this doctrine provides protection to directors to escape responsibility for losses that occur. However, there are still limitations contained in the management, namely in accordance with the "interests" of the company and in accordance with the "purpose and objectives" of the establishment of the company. In England, since 1929 all public companies are required to have at least two members of the Board of Directors regardless of the type of business activity (Charlesworth & Morse, 1991).

As explained above, each member of the Board of Directors is required to manage the Company. The obligation to carry out the Company must also be in "good faith" (e goeder trouw, good faith). The meaning of good faith in the context of the implementation of management by members of the board of directors in practice and legal doctrine, has a broad reach, including; a director must be trusted (fiduciary duty in carrying out the responsibilities of managing the company. This means that every member of the board of directors is forever "trustworthy" (must always be bonafide) and must always be "honest" (must always be honest). Regarding the meaning of good faith and the obligation to be trusted, and always honest in taking responsibility for the management of the company, MC Oliver and EA Marshall stated: .....a director is permitted to be very stupid so long as he is honest (Tumbuan, 2002). Although this expression contains a legal statement, justifying a director who is stupid as long as he is honest, does not mean that he can be approved to appoint members of the board of directors who are stupid. And what the statement wanted was to appoint a board member who was both capable and honest, rather than smart but dishonest and untrustworthy.

As the only organ in the company that is given the right and authority to act on behalf of the company. Of course, this position of the Board of Directors has the consequence that the management of the company, including the management of the company's assets, depends entirely on the board of directors, including the management of the company's assets, the management of the company by the director also includes the company's mandate. This means that the director's mandate to manage the company also includes a mandate, including being completely dependent on the company's directors. This means that the director's mandate to manage the company also includes the mandate to manage the company's assets. Therefore, if there is a loss because the director does not carry out

his duties in good faith, the loss borne by the company becomes the director's personal responsibility.

With regard to the issue of the application of duty of care in the management of a company, it is necessary to put forward a generally accepted principle, which is commonly called "business judgment risk". That is, if members of the Board of Directors are truly honest in carrying out their responsibilities in managing the company, and that honesty is accompanied by reasonable comprehensive judgment in accordance with experience and knowledge as well as common business practice, then that judgment is wrong and wrong (error judgment), in this case an error judgment occurs, then the member of the board of directors cannot be held accountable for any error in judgment made honestly (does not liable for honest mistakes of judgment) or not liable for any error judgment. Such events are included in the category of business judgment risk principles (Howel & Printice, 1988). As previously explained, business activities are full of competition and high competition, requiring the Board of Directors to be careful and able to make decisions quickly and accurately. It is something that is unfair when carrying out its management, the director is always overshadowed by the fear of making the wrong decision and will harm the company. It is clear that this condition will disrupt the company's performance and will actually harm the company. The Business Judgment Rule encourages directors to be brave in making decisions and taking risks in carrying out their duties and responsibilities in managing the company and not to be afraid and not to be overly careful about threats that cause the director to be personally responsible for the company's losses that may arise as a result of actions or the director's business decisions.

According to Wild (2006), United States Attorney and Politician, the Business Judgment Rule is a legal doctrine that officers and directors of a corporation cannot be held liable for losses to shareholders for business decisions that are proven to be unfavorable or harmful to the corporation as long as those decisions are within the discretion of the officials. or director and is made on an informed basis, in good faith without any direct conflict of interest, and with an honest and reasonable belief that it is in the best interest of the corporation. "Business Judgment Rule is the legal doctrine that a corporation's officers and directors cannot be liable for damages to stockholders for a business decision that proves unprofitable or harmful to the corporations so long as the decisions were within the officers' or discretions power and was made on an informed basis, in good faith without any direct conflict of interest, and in the honest and reasonable belief that it was in the corporation's best interest."(Khairand, 2014).

According to the Business Judgment Rule doctrine, judges are considered to have no business skills, therefore, the court has no right to interfere in giving an assessment of business decisions taken by directors. The Board of Directors is deemed to have made the right decision in accordance with their expertise and habits that occur in the business. The court can only intervene in the event that there is a violation committed by the director in making decisions or implementing the management of the company. The link between the Business Judgment Rule Doctrine and Article 97 paragraph (5) of the Limited Liability Company Law.

Business Judgment Rule as a self-defense effort for directors in managing the company. The rules of business valuation postulate that a director cannot be held personally responsible for his actions taken in his position as a director, if the director believes that

the actions taken are the best for the company and are carried out honestly, in good faith only for the benefit of the company.

## **Conclusion**

The responsibilities of the Board of Directors are regulated in Article 92 paragraph (1) of Law Number 40 of 2007 concerning Limited Liability Companies, hereinafter referred to as the Limited Liability Company Law. Management as referred to in paragraph (1) must be carried out by each member of the Board of Directors properly and responsibly, each member of the Board of Directors is personally fully responsible for the loss of the company, the responsibility referred to in paragraph (3) applies jointly and severally to each member of the Board of Directors. According to the author, the application of the Business Judgment Rule principles to directors who carry out policies that are detrimental to companies in Indonesia has so far not been maximized. The lack of human resources in our law enforcement, especially the prosecutor's office, which has the opportunity to drag directors who carry out their duties based on the principles of good faith, prudence and responsibility into the criminal realm if the company he leads is a state-owned company (Persero). Law enforcement officials must understand that the Business Judgment Rule is one of the directors' self-defense efforts in managing the company. The Business Judgment Rule postulates that a director cannot be held personally responsible for the actions he takes as a director, if the directors believe that the actions he takes are the best, then for the company and he does them honestly, with good faith only for the benefit of the company. So the hope is that protection for Directors who carry out policies that are detrimental to the company is very minimal in Indonesia. The absence of a benchmark for good faith is a scourge that can be misused by law enforcers to drag directors into the realm of law.

The author hopes that the management of the company as well as law enforcers must be more careful and intelligent in imposing blame on the directors regarding the management of the directors in running the company so that the application of the "principle of business judgment rule" to directors who manage the company with care, good faith and responsibility can go well. My suggestion is for the legislators, namely the Government of Indonesia and the Legislature to make derivatives of Law number 40 of 2007 concerning Limited Liability Companies which regulates more clearly and in detail regarding this "principle of business judgment rule". These derivatives can be in the form of Government Regulations and Regulations of the Minister of Law and Human Rights so as to provide legal certainty and legal protection for the Board of Directors in running the company.

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## **LEGAL PROTECTION OF TRADITIONAL MEDICINE PRACTITIONERS IN INDONESIA**

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**Abstract:** *One result of Indonesian culture is traditional knowledge. The activity of traditional medicine practitioners is regulated by Law No. 36 of 2009 "On Health". One of the traditional treatments is a religious approach, but it has not received full recognition because it contradicts the principles of medical science. However in everyday life, this approach is valid and proven. This study aims to determine the urgency of legal protection to protect the traditional medicine profession based on supernatural and religion. This research is a normative legal research with statutory, conceptual, and comparative approaches. The results of the study show that regulation and legal protection of traditional medicine practitioners are very important because this is an effort to improve public health according to the constitutional mandate and the people's right to health. This legal protection also aims to provide full recognition to the traditional medicine as a profession and legal certainty for traditional medicine practitioners. In order to be able to participate in health care and preserve the nation's culture, the profession of traditional medicine practitioners must be enshrined in the form of legislation, such as the Law "On Health".*

**Keywords:** *Legal Protection, Traditional medicine practitioners, Medicines, Supernatural*

### **Introduction**

Traditional medicines are regulated by Law No. 36 of 2009 on Health. These services are performed by traditional medicine practitioners traditional medicine practitioners also known as healers. These services use a variety of traditional therapy methods and represent one of the traditions in the culture of the Indonesian nation, as part of traditional knowledge to meet the basic needs of human life in the form of medicine and treatment, in addition to other basic needs (Agustina, 2015).

Two of the several traditional medicine methods are supernatural methods and religious approach. The two traditional medicine methods are included in empirical methods of traditional medicine. Empirical medicines are regulated by Regulation of the Minister of Health No. 61 of 2016. The two types of traditional medicine methods are related to one another. Traditional medicine practitioners who use both methods are protected legally and clearly according to the law provided in paragraph (1) of Article 3 of Chapter III "On

Registration" of the Decree of the Minister of Health "On the Implementation of Traditional Medicine," No. 1076/Menkes/SK/VII/2003, dated July 24, 2003. In order to get Traditional Medicine Registered Certificate (STPT), traditional healers who practice supernatural methods and religious approach should legally register with the City or District Health Office in Indonesia by specifying the type of medicine they provide. In such a way, a healer will have a clear legal basis for providing traditional medicines to the community.

Even though traditional medicines have been regulated by Law No. 36 of 2009 On Health. There is still a problem. This problem occurs because the law does not clearly regulate traditional medicines using supernatural methods and religious approach. The law provides only a general regulation of types of traditional medicines, traditional herbal medicine, and the skills of their practitioners. Furthermore, the Decree of the Minister of Health No. 1076 of 2003, which regulated the types of traditional medicines and traditional medicine methods according to the reality that existed in society, was revoked and replaced with the Regulation of the Minister of Health, "On Empirical Traditional Medicines," No. 61 of 2016 (Utami and Alawiya, 2018).

Therefore, traditional medicine practitioners who practice supernatural method and religious approaches approaches belong to traditional medicine. Normatively, traditional medicine practitioners as legal subjects are unclear. Therefore, there is a risk that traditional healers can be seen as people who provide health services without a clear and valid legal ground. This lack of clarity indicates no coexistence (Collective Coexistence) between State Law, Customary Law and Religious Law, which constitute a plurality of legal orders in Indonesia. However State Law should be receptive to Customary Law and Religious Law as stated in the Article 18b paragraph (2) of the 1945 Constitution of the Republic of Indonesia and the state recognizes and respects customary law community units and their traditional rights.

In addition, the Law on Judicial Power also states, "Judges and Constitutional Justices are obliged to explore, follow and understand legal values and a sense of justice that exist in society". This is because the management of Indonesia's national health must be carried out in an integrated manner by all components of the Indonesian nation. Traditional medicines are currently growing rapidly and have become an alternative choice for the community as an effort to treat and/or care outside of medical science and treatment. Therefore, traditional medicine methods need to be screened by way of assessment, research, and/or testing. For this reason, a special institution was formed to handle this matter at the provincial level with the name Center for the Development and Application of Traditional Medicine, abbreviated as SP3T. One of the tasks of SP3T is to explore local wisdom that already has empirical evidence in overcoming health problems in the province. Local wisdom-based traditional medicine practitioners using supernatural methods and religious approach serving clients or patients without having an STPT are at risk of being categorized as committing an illegal act, namely carrying out the profession of a traditional medicine practitioners using supernatural methods and religious approach without authority or permission or without a valid legal basis. Traditional types of health services using supernatural methods and religious approaches are accepted in the legal norms governing health as a form of collective coexistence between Traditional types of health services using supernatural methods and religious approaches; this indicates a plurality of legal systems in Indonesia. Based on the background above, this research is focused on the

urgency of regulating traditional medicine practitioners regarding the legal protection of professions based on local wisdom.

### **Research method**

This research is a normative juridical research. Normative juridical research is legal research that is carried out by researching literature or secondary data as basic material for research by conducting a search of regulations and literature related to the problem under study (Soekanto & Mahmudji, 2001). The approach used is the statutory approach, the philosophical approach, the conceptual approach, and comparative law. The legal materials in this study consist of primary legal materials (consisting of the 1945 Constitution, and laws and regulations related to health), secondary legal materials (consisting of journals, magazines, articles, interviews and others). Data collection techniques were carried out through document studies and internet searching. Document study is a way of gathering information obtained from documents, namely written remains, archives, deeds, diplomas, reports, laws and regulations, diaries, personal letters, biographical notes, interviews, and other documents related to the problem studied (Prastowo, 2011). The legal materials obtained in this study used the legal substance analysis technique to analyze formulations in statutory regulations and other legal materials to find weaknesses in the regulation of legal protection for the traditional medicine practitioners profession based on local wisdom in the national health system.

### **Result and discussion**

Traditional medicines are one of the special professions in medicines, so that their role can be equated with the medical profession. These service like a doctor, need legal protection to protect their profession. A traditional medicine practitioners are defined as a special profession in the field of traditional medicine, which can be on a par with the profession of a doctor in modern medicine because it has the following criteria:

Covering certain fields only (inspesilisasi).

Based on special expertise and skills.

It is permanent and continuous.

Prioritizing service over rewards, income or earnings.

Grouped in the organization.

Traditional medicine practitioners in the Decree of the Minister of Health No.: 1076/2003 dated 24 July 2003 mentioned that traditional medicine practitioners joined various professional organizations of similar medicines. In 2015, some traditional medicine practitioners associations used supernatural methods such as ARSI (All-Indonesian Reiki Association) and FK PPAI (Indonesian Paranormal Communication Forum and Alternative Healers), others used a religious approach, namely:

PERCHIRINDO (Indonesian Chiropractic Association).

ASPETRI (Indonesian Herb Medicine Association).

IKNI (Indonesian Naturopathic Association).

PAKSI (All Indonesian Acupuncture Association).

PERTAPI (Indonesian Paranormal and Alternative Healers Communication Forum).

IHI (Indonesian Home Opathic Association).

AP3I (Association of Indonesian Medicine Massage Practitioners).

ASTI (Indonesian Spa Therapist Association).

ABI (Indonesian Cupping Association).

IPATRI (Indonesian Traditional Medicine Association).

As a result of unclear norms in Law No. 36 of 2009 on Health, it has implications for the non-integration of traditional medicine arrangements in the statutory regulations and implementing regulations. The unclear norms protecting traditional medicine practitioners based on local wisdom with supernatural methods and religious approaches also have philosophical, theoretical and juridical impacts, namely:

*Philosophical:* Ontology, the state protects citizens who carry out work as traditional medicine practitioners based on local wisdom with supernatural methods and religious approach, because it is an effort to exist prosperously in society. This is in accordance with the fourth paragraph of the Preamble to the 1945 Constitution which reads: The state protects the entire nation and all of Indonesia's bloodshed, promotes the general welfare and educates the nation's life. Its constitutional foundation is set out in section 27(2) of the 1945 Constitution, which reads as follows: Every citizen has the right to work and to live decently for humanity. Epistemology, the legal provisions of Article 59 paragraph (1) of Law No. 36 of 2009 On Health do not clearly regulate traditional medicine practitioners based on local wisdom using supernatural methods and religious approach but only group them into 2 (two) groups namely: "based on For treatment, traditional medicines are divided into: Traditional medicines that use skills and use herbs. Government Regulation No. 103 of 2014 On Traditional Medicines which is an implementing regulation of Law No. 36 of 2009 On Health is also unclear in regulating traditional medicines. Furthermore, the Regulation of the Minister of Health No. 61 of 2016 dated 27 December 2016 On Empirical Traditional Medicines also does not regulate Traditional medicine practitioners based on local wisdom with supernatural methods and a religious approach. In fact, Article 45 states that it has revoked and declared the Decree of the Minister of Health No. 1076 valid. /Menkes/SK/VII/2003 dated 24 July 2003 On Implementation of Traditional Medicine. Considering that the Decree of the Minister of Health clearly regulates and protects practitioners of traditional medicine who use supernatural methods and religious approach. Axiology, as a result of the unclear regulation and protection of traditional medicine practitioners based on local wisdom with supernatural methods and religious approach in Law No. 36 of 2009, citizens who carry out jobs or professions to earn a decent living as traditional medical practitioners do not get legal protection.

*Theoretical* Every traditional medicine practitioners who provides empirical traditional medicines is required to have an STPT (Traditional Health Registered Certificate), as specified in Article 39 of Government Regulation No. 103 of 2014 On Traditional Medicines as implementing regulations of Law No. 36 of 2009. Since in the law No. 36 of 2009 "On Health" does not clearly regulate the activity of local-wisdom traditional healers who practice supernatural methods and a religious approach, there is no legal certainty.

*Juridical* Traditional medicine practitioners based on local wisdom with supernatural methods and with religious approach serving clients or patients without having an STPT (Traditional Health Registered Certificate) are at risk of being categorized as committing an unlawful act, namely carrying out the profession of a traditional medicine practitioners using supernatural methods and religious approach without authority or without rights that may be categorized as without permission or without a valid legal basis.



One of the objectives of law is legal certainty, in this case for legal protection for traditional medicine practitioners based on local wisdom using supernatural methods and a religious approach in serving clients or patients. In the opinion of the author, it is necessary to carry out an in-depth study by institutions that specifically deal with this throughout Indonesia, so that traditional medicines have a clear legal formulation (Kartika et al., 2016). Health law in general is the regulation of health. Health regulations are set out in health laws, including nursing and midwives. Health law also regulates the duties of doctors, nurses and health workers by adhering to all legal aspects of health, and errors in the practice of the profession (Mudayana, 2015). The legal protection of traditional medicines must be able to cover the interests of all stakeholders, namely traditional healthcare providers and patients of traditional medicines. The government's authority to protect traditional medicine stakeholders can be viewed from the perspective of health law, local government law, consumer protection law, and criminal law. By protecting traditional medicine stakeholders, the government has the authority and obligation to make and enforce regulations regarding traditional medicines as a whole.

The government regulates traditional medicines in the Law of the Republic of Indonesia No. 36 of 2009 On Health and Government Regulation No. 103 of 2014 On Traditional Medicines. The results of the research show that the Health Law has been deregulated however has tried to be regulated and finally accommodated by Government Regulation No. 103 of 2014 On Traditional Medicines. This shows that the Health Law does not provide legal protection for traditional medicines that use supernatural methods and religious approaches. In order to create a conformity of positive law that applies in society in accordance with the hierarchy of national laws and regulations, it is necessary to establish clear legal norms regarding traditional medicines that can provide legal certainty for every stakeholder of traditional medicines.

Government Regulation No. 103 of 2014 On Traditional Medicines states that traditional medicines include skills traditional medicines and traditional herbal medicines. Of these two types of traditional medicines, the government has the authority to fully regulate the Human Resources for Health and the Fields of Pharmaceutical Preparations, Medical Devices, and Food and Beverages. Regency/City Regional Governments have broad and real authority in regulating traditional medicines. Regency/City Regional Governments which in this case have the authority to directly regulate traditional medicines are the Health Office and the Food and Drug Supervisory Agency. The Department of Health has the authority to regulate Human Resources for Traditional Health Workers in terms of issuing licenses to practice and work permits for competent traditional health workers. Meanwhile, the Drug and Food Control Agency (BPOM) is tasked with regulating, registering and overseeing the circulation of traditional medicines that are widely circulating in society. Error problems can also be seen in making decisions or judgments. The efforts to prevent negligence and errors in health practice are through understanding and knowledge of health law.

At present there has been a change in legal cases in aspects that lead to a profession related to medicines. The legal aspect in medicines means talking more to the provisions governing regulations in the health sector. Law is statutory regulations made by a power in regulating social life in society. Intercourse or living in an advanced society like today is not enough just with the customs passed down from generation to generation like before the birth of modern civilization. For this reason, community groups living in a society or state need

written rules, which are called laws (Sampurno, 2011). Even so, not all people's behavior or relationships between one another are governed by unwritten laws called: ethics, customs, traditions, beliefs and so on.

Traditional medicine practitioners based on local wisdom using supernatural methods and a religious approach can be classified as a type of paranormal spiritual medicine. Its existence in Indonesian society is real and needed by people who believe that a disease can not only be cured or restored by modern medicine however there is a belief that a disease can also be cured by traditional medicine practitioners with supernatural methods and a religious approach. Whereas according to Law No. 36 of 2009 On Health, the traditional medicine practitioners profession has not been fully absorbed to receive legal protection, both preventively and repressively, which should be the right of these traditional medicine practitioners to be legally protected.

Currently, the flow of modernization is sweeping all areas of human life, along with the progress achieved by humans in science and technology. However, traditional medicine or medicines as a tradition, including traditional medicines with supernatural methods and religious approaches still exist or are still functional in people's lives. Regulations in legal norms to protect traditional medicine practitioners with supernatural methods and religious approach, is to achieve order for the sake of justice. So in accordance with its aim to achieve order for justice, the rules of law will develop in line with the development of human social life. The development of these legal rules in practice indicates a replacement of the existing legal rules (positive law). This is because it is no longer in accordance with the needs of the community, so new legal regulations of the same type are needed. The legal rules that will replace them as long as they have not yet become positive legal rules, because they are still planned to come into force, are called planned laws (*Ius Constituendum*). The new rule of law as positive law and the rule of law which is no longer valid, both in legal science are called "legal order". This legal system throughout the ages will always exist and increase as long as there is life and development of human life. This is what is then recorded as legal history (Djamal, 2005).

Setting legal norms for the protection of traditional medicine practitioners using supernatural methods and a religious approach according to Vranes (2006), norms have a fundamental function, namely obligating, prohibiting, and permitting based on the logic of deontic law. In addition, norms can be divided into norms of conduct and norms of competence. Norms can contain orders, give authority, allow or derogate. Norms containing orders can be in the form of orders to perform an action or prohibit a particular action. Norms that give authority are norms that define authority for a particular person or entity. The permitting norm means that the norm allows for an action to be performed or not to perform an action. Meanwhile, derogating norms are norms that revoke or cancel other norms. In the Republic of Indonesia, apart from being a legal ideal, Pancasila is also a fundamental state norm (*staats fundamental norm*), because of that the Pancasila precepts both individually and collectively are the basic or highest norm for the enactment of all legal norms.

With clear norms that do not have multiple interpretations in the health law, legal certainty will be obtained in providing legal protection for traditional medicine practitioners based on local wisdom using supernatural methods and a religious approach. Community culture with its institutions can create legal norms. Legal norms are social rules made by certain institutions, such as the government, so that they can strictly prohibit and force people to

behave according to the wishes of the regulators. Violation of this norm is in the form of fines and corporal punishment (Effendi et al., 2016).

The existence of legal norms as regulations or written agreements that have sanctions and enforcement tools is intended so that people obey them and feel deterred by the sanctions applied, so they do not repeat acts that violate the law. So the characteristics of legal norms here are definite (written) rules, binding on everyone, having regulatory enforcement tools, made by authorities, coercive, heavy sanctions. Legal regulations that are directly related to legal protection of traditional medicines in Indonesia today are Law No. 36 of 2009 On Health, in the norms of Article 59 it divides traditional medicine based on the method of treatment, namely skills and ingredients; Government Regulation No. 103 of 2014 On Traditional Medicines regulates empirical traditional medicines, complementary traditional medicines and integrated traditional medicines; Regulation of the Minister of Health No. 61 of 2016 On Empirical Medicines, skills are described as a thought exercise, with energy from within and outside.

The two regulations under the aforementioned law do not include protection for traditional medicine practitioners based on local wisdom using supernatural methods and a religious approach. This is understandable because traditional medicine practitioners based on local wisdom using supernatural methods and religious approaches are not listed in the norms of Law No. 36 of 2009 On Health which underlies the issuance of these two regulations. So if the two regulations include traditional healing based on local wisdom with supernatural methods and a religious approach in it, then it will not be in accordance with the legal norms that underlie the publication of the two regulations. Traditional medicine practitioners who use supernatural methods and religious approach.

Traditional medicine practitioners using supernatural methods and religious approaches can legally register themselves at the City and District Health Offices in Indonesia by specifying the types of medicines using supernatural methods and a religious approach. Obtaining a Traditional Medicine Registered Letter (STPT), so that it has a legal and clear legal basis, is also the basis for the rights according to law for traditional medicine practitioners to provide traditional medicines to the public using these two methods, because they have been regulated legally and clearly in the norms applicable law. Therefore for the future it is necessary to reformulate the norms of Law No. 36 of 2009 On Health by including traditional medicine practitioners based on local wisdom with supernatural methods and a religious approach in it. Thus there will be clear legal norms and legal certainty and harmony in laws and regulations will be achieved.

## **Conclusion**

Based on the description above, it can be concluded that the traditional medicine practitioners based on local wisdom with supernatural methods and a religious approach, need legal protection. Because these professions is still functional. These are needed by the community. The implication of current laws and regulations in the health sector is that there is ambiguity in legal norms to provide legal protection for traditional medicine practitioners based on local wisdom using supernatural methods and a religious approach, giving rise to multiple interpretations which can result in traditional medicine practitioners based on local wisdom using supernatural methods and a religious approach. prosecuted for unlawful acts.

Amendment to Law No. 36 of 2009 On Health Requires revision of the current formulation of legal norms, in order to provide legal protection for the traditional medicine practitioners profession in the practice of medicines based on local wisdom with supernatural methods and a religious approach, both for the present and future generations. will come. That is, it is necessary to revise the legal norms of Article 59 paragraph (1) of Law No. 36 of 2009 On Health with the following proposed formulation, based on the method of treatment, traditional medicines are divided into: Traditional medicines that use skills, Traditional medicines that use herbs, traditional medicines using supernatural methods, and traditional medicines using a religious approach.

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## SUCCESS AND IMPACT OF STRATEGIC PLANS IMPLEMENTATION ON PUBLIC SERVICE DELIVERY IN THE GAMBIA

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**Abstract:** *The study investigated strategic planning practices for public service delivery (PSD) in The Gambia, and examined the effectiveness of perceived strategic plans implementation impact on PSD in the study area. This study revealed that strategic plans implementation in public service organisations (PSOs) was remarkably effective, and had positive impact on public service delivery. The study showed that there was an established nexus between strategic plan implementation and public service delivery in the area under review. The findings indicated that strategic planning and implementation played a significant role for PSD in The Gambia. Simple linear regression analysis indicated significant relationship between strategic plans implementation in PSOs and PSD in the country. The findings of the survey objectives concluded that the strategic plans implementation in public service organisations had significant impact on public service delivery in The Gambia since  $R = .614 > 0$ ,  $R^2 = .377$ ,  $F(5, 149) = 17.409$ ;  $p < .05$ . Specific policy and general recommendations were proffered to assist public service organisations in achieving the objectives of public service delivery, and to increase the impact of strategic plans implementation on public service delivery at the national level.*

**Keywords:** *strategy, management, planning, plan, public, organisation, and service delivery.*

### Introduction

Global business environment has become very intricate, and so are public service delivery and organisations. To successfully compete in the dynamic and competitive environment, public service organisations (PSOs) must continuously improve its public service delivery through strategic planning and strategic management. Strategic management is a process that determines an organisation's mission, vision and mandate. It analyses the opportunities and threats that exist in the external environment; analyses the strengths and weaknesses within the organisation, and manages the strategy formulation, implementation and evaluation to create sustained value in order to accomplish organisational goals and objectives (Bryson, 2011; Wheelen & Hunger, 2012; and Kabeyi, 2019). Similarly, Bryson and George (2020) stated that "strategic management is an approach to strategising by public organisations or other entities which integrates strategy formulation and implementation, and typically includes strategic planning to formulate strategies, ways of implementing strategies, and continuous strategic learning". Strategic management equally describes strategies and challenges, and allocates resources to critical organisational issues with a view to improving service delivery, and achieving corporate objectives (Bryson,

2011). Public service delivery refers to “the provision of social or public goods that will promote socio-economic wellbeing of the citizens” (Boris, 2015).

Considering the interaction of competitive forces, efficient and effective strategic plans are becoming increasingly essential in coping with contemporary managerial challenges of the Gambian public service organisations. Such challenges include inadequate capacity, inadequate financial resources, staff attrition, difficulty in recruitment, and governance issues. Added to that, low salaries (remuneration), political interference, lack of top management commitment, inadequate strategic management professionals and expertise, insufficient budgetary allocations, and undesirable employee behaviour among others face strategic plans implementation in the Gambian public service.

Across the globe, public service organisations have worked diligently to improve performance in the delivery of public services in recent times. Most developed nations now focus on the public service sector by deploying strategic management and performance indicators especially during a period of economic crisis. Consequently, strategic management has become a widely accepted benchmark or methods of modernising public policy-making and governance globally. They are significant tools in governance for effective public service delivery in public service organisations and their uses. Furthermore, many governments have made efforts within the public service sector by changing the mode of management, taking into consideration the need for transparency and accountability. This is because the public remains the main engine for development (Hughes, 2010; Chemengich, 2013). Thus, most nations have introduced strategic changes that result in good performance in public service delivery.

Most states of Africa – The Gambia inclusive – no doubt inherited and continued the governance systems bequeathed by the former colonisers. In The Gambia, service delivery in the public sector, and public administration system after colonialism were premised on the skills and knowledge that the colonial masters bequeathed. Strategic management is a major tool utilised by the Gambian Government in managing and governing PSOs for the provision of public services in The Gambia. To this end, Part III, Sections 11 (1 and 2) and 12 (1 and 2) of the Public Enterprise Act, 1990 stipulated that government agencies and public enterprises should have approved strategic plans.

However, in spite of the constitutional requirements for public organisations to have strategic plans, some PSOs have either not formulated or reviewed their strategic plans within the required period. In addition, some PSOs have failed to submit their strategic plans to the National Assembly, and others do not have strategic plans. It is important to note that the formulation and implementation of strategic plans help measure the achievement of the organisation’s mandates, mission, vision, and objectives. Research findings showed a significant connection between strategic planning and improvement in organisational performance (Ijewereme, 2018; Elliott, Day, & Lichtenstein, 2019).

Several reforms (“Structural Adjustment Programme (SAP) (1980s)”, “Administrative Reform (1987)”, “Civil Service Reform Strategy (2007-2011)”, “Public Financial Management (PFM) Reform Strategy (2010-2014)”, and “Civil Service Reform Strategy Programme (2012-2015)”) among others have taken place within the Gambian public sector. This resulted from growing awareness on the significance of quality service delivery within the public sector. The dwindling nature of public service delivery in The Gambia during the period of study was due largely to the traditional paradigm of centralised government, decision-making, management, and governance. This study focused on

strategic plans implementation success and the effectiveness of its impact of on public service delivery in The Gambia. The formulation of national socio-economic development strategy i.e., Vision 2020 in 1996 necessitated strategic planning for several PSOs in the country. Consequently, the study covered PSOs that are constitutionally recognised and have produced the requisite strategic plans. PSOs that did not produce strategic plans as required by the 1997 Constitution of The Gambia were not included in this study. The research questions that this study sought to answer are: Did PSOs achieve any success in their strategic plans implementation in PSD? What is the perceived impact of strategic plan implementation on public service delivery in The Gambia? Consequently, the paper attempted to answer these questions by assessing strategic plans implementation success and its perceived impact on public service delivery in The Gambia.

## **Conceptual Review**

### *Strategic Planning*

Strategic planning has been used extensively in different public and private service sector, or organisations the world over (e.g., governments, local governments, non-governmental organisations, and civil society organisations, private companies, associations, foundations, societies, schools and universities). Heymann (1987: xiii) asserted that the politics of managing a government agency “requires developing a coherent, defensible strategy for the organisation”. Thus, strategic planning does not only chat future plans, but tries to systematically provide directions and pathways to operational management, as well as equates the formulation and achievement of corporate goals (Bryson, 2011; Thorpe & Thorpe, 2012; Hoefler & Chigbu, 2013). Strategic planning could help organisations achieve set objectives or targets, and become more efficient and effective. Bryson, Edwards and Van Slyke (2017) argued that in order to realise the benefits of strategic planning in the public sector, certain concepts, procedures, tools, and practices must be thoughtfully utilised and contingently, in specific situations. Strategic planning advocates affirmed that strategic planning could help organisations think, act, and learn strategically; make improved decisions; and enhance performance in organisations (Feldman, Khademian, Ingram, & Schneider, 2006; Bryson, Crosby & Bryson, 2009; and Tama, 2017). Giraudou and Mclarney (2014: 9) underscored that “the publication of strategic plans and annual performance reports provides transparency of government’s operations to the public and organisation’s stakeholders. This transparency leads to increased quality decisions and promote the leadership capacities of institution management”.

Empirical evidences showed that strategic planning could be beneficial to organisations by producing the desired results (Bryson *et al.*, 2017; Sawaneh, 2021a, 2021b). Several studies like Poister and Streib (2005); Ugboro, Obeng and Spann (2010); Elbanna, *et al.* (2015); and Elliott *et al.* (2019) suggested that strategic planning in public organisations had significant effect on performance, i.e., there is a positive connection between strategic planning and performance. Furthermore, meta-analysis of Walker and Andrews (2015) found a positive link between planning processes generally and performance in, mostly US and UK, local governments. The study of Tama (2017) showed that “strategic planning can help leaders and organisations make good decisions, operate more effectively and efficiently, focus on and institutionalise priorities, prepare for contingencies and crises, innovate, provide personnel with a sense of purpose, and serve the public well”. Related studies attested to the fact that applying strategic plan to budget, and in driving the overall

performance management system (Poister & Streib, 2005; and utilising performance measures to monitor progress of strategic initiatives (Hendrick, 2003; Poister & Streib, 2005; Androniceanu, 2017) lead to improved outcomes (Poister *et al.*, 2010). To realise beneficial outcomes of strategic planning, public managers should drive strategic planning through budgeting, measurement, and performance management process (Poister & Streib, 2005; and Leskaj, 2017). A carefully-formulated strategic plan could increase profitability and enhance corporate governance (Kabeyi, 2019). The study of Taiwo and Idunnu (2007) established that strategic planning encourages healthier organisational performance, which in turn (in the long-term) impacts on organisation survival and that managerial, environmental and organisational factors define the strength of strategic planning. They also established a positive relationship between strategic planning, and the survival of an organisation. The objective of this paper is to examine the impact of strategic plans implementation on public service delivery in The Gambia.

### **Theoretical Review**

The study is premised on Easton's (1953, 1957) systems theory in political science. Systems theory originated from biology, and was later popularised by social scientists. The German biologist Ludwig Von Bertalanffy was the pioneer of the general systems theory (GST) in the 1930s, from which the social scientists developed and created the concept of systems theory (Bertalanffy, 1956, 1962). Bertalanffy (1968) emphasised the importance of viewing systems as a whole, as science had attempted describing observable phenomena by allowing the elementary units to interact. In connection with the human society, a political system comprises various subgroups with various roles and is a collection of these functions that uphold the entire system functionality (Olaniyi, 1995). David Easton's systems theory are categorised into two: those who govern and those that are governed. In analysing political systems, Easton (1957) tried to establish the link between outputs and ensuring inputs of the system. The political system procures inputs from society comprising requests for particular policies and communication of support for the regime and translates into output commanding policies and decisions (Easton, 1953).

The outputs from the system are given as feedback to societies in order to influence the next circle of outputs (Olaniyi, 1998). Outputs are what the governments do or the service they deliver. The extent of success of government's policy is examined through feedback. Thus, policy choice cannot be taken for granted, it must be proved, and to ensure maximum performance (Olaniyi, 1998). Easton (1957) argued that a political system or an organisation is persistently exposed to challenges from its environment and this is essential to its survival. He asserts that the political system and its environment are connected by input-output connection (Easton, 1957). Easton (1965b) contended that the political system itself is perceived as a change procedure, whose task is to translate inputs into outputs and thus assure the existence of the system. The input-output relationship between the political system and its environment is abridged in the following ways. The political system has two main types of inputs: demands and supports. These inputs deliver the raw material or pieces of information the system is to process and the energy that ensures its running. Demands originate from the fact that shortage exists in all societies in relation to most of the things that men need/want or value (Easton, 1965b). Human needs turn out to be demands – and consequently inputs of the political system – when people or groups express a proposal that



the authorities must decide on. The inputs of supports allow the political system to do its job of meeting demands. Supportive behaviour could comprise either open actions or attitudes that influence a person to act in line with the political system (Easton, 1965b). Easton (1965b) asserted that there are three main “political objects” in a system: the authorities, the regime, and the political community. Systems try to uphold a stable flow of support and get the required energy that translates demands to decisions in two primary ways: through outputs that meet the citizens’ needs and political socialisation. Easton (1965b) maintained that outputs of a political system are characterised by decisions and actions of implementation that distribute goods or services in an authoritative manner. He argued that the political system is subject to influences from surrounding its adoption within a typical political life, these inputs are regarded as raw materials, and influences that alter, and destroy the political system (Easton, 1957). Easton (1957) referred to those influences that cause change in the way a system works as “disturbances”. He asserted that disturbances are “stressful” if they stop the system from performing in ways needed to maintain itself. Turbulences that are stressful are conveyed to the political system by variations in the input of demands or supports (Easton, 1957). Ordinarily, pressure occurs when the influx of demands turns too hefty or when inflow of support turns too light. Extreme demands or inadequate supports can threaten those primary roles as important variables on which the life of the political system is contingent, such as allocating goods and/or services for the society and persuading members to accept these provisions as obligatory (Easton, 1965a, 1965b). The result of much demand is “output failure”, i.e., the system’s inability to produce adequate outputs to maintain the required support of the politically important members (Easton, 1965a, 1965b; Omoleke, 2008). Figure 1 depicts Easton’s model of political system as explained in the preceding paragraphs.

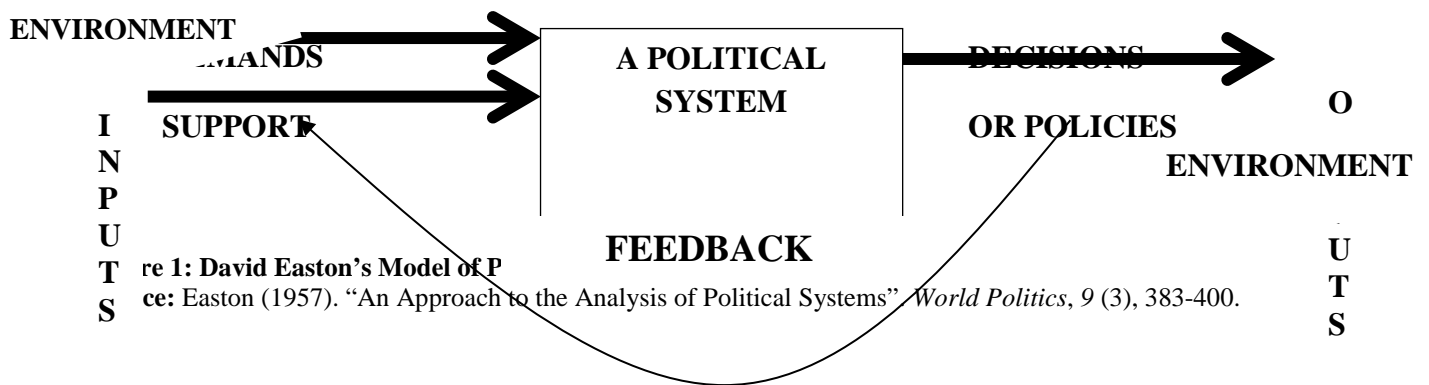


Figure 1: David Easton’s Model of Political System. Source: Easton (1957). “An Approach to the Analysis of Political Systems” *World Politics*, 9 (3), 383-400.

## Methodology

### Research Design

This study employed “cross-sectional survey research design” in examining strategic plans implementation and public service delivery in The Gambia. It involved the selection of a sample of respondents and a systematic collection, presentation and analysis of data on strategic plans implementation success and its perceived impact on public service delivery in the country. The study collected data through the administration of questionnaire on the subject under investigation. Survey research enabled the researcher to examine both independent and dependent variables without attempting to manipulate or control the

respondents. It also allowed the researcher to assess variety of behaviours and other phenomena in a naturalistic setting. The study used questionnaire method for data collection and analysis, which covered quantitative inquiries. Primary data were collected through administration of questionnaire and policy documents. Based on the list of staff obtained from each organisation (2019), a sample frame (1208) was created and comprised senior public servants (grades 8 and above) in five (5) randomly selected public service organisations (PSOs) in The Gambia namely: Gambia Competition & Consumer Protection Commission (GCCPC) (21), Gambia Revenue Authority (GRA) (200), National Water and Electricity Company (NAWEC) (500), Public Utilities Regulatory Authority (PURA) (32), and University of The Gambia (UTG) (305). The five (5) PSOs that were randomly chosen had up-to-date strategic plans and relevant policy documents. The senior public servants were selected because they were responsible for strategic plans formulation and implementation, and their roles, proficiency and experience in strategic planning, implementation and public service delivery issues. A sample size of 211 senior public service respondents, representing 20% of the sample frame were randomly selected for the administration of first set of questionnaire using probability proportional-to-size sampling technique. The distribution were as follows: GCCPC (4), GRA (40), NAWEC (100), PURA (6), and UTG (61). Convenient sampling was used to select 30 beneficiaries (consumers) for each of the five (5) PSOs, totalling 150 respondents for the administration of the second set of questionnaire. Consequently, two (2) sets of questionnaires were used for the study. The first set was administered on senior public servants in PSOs, while the second set of questionnaire was administered on the beneficiaries of public services such as water and electricity users, telecommunication subscribers, tax payers, students, entrepreneurs and companies, etc. The selection of the beneficiaries was based on their roles as end-users of public services and experience in dealing with the selected PSOs in public service delivery. Secondary data were obtained from policy documents, strategic plans, journal articles and textbooks, and the Internet. Data collected were analysed using descriptive and inferential statistics.

#### *Sampling Technique and Sample Size*

The study adopted multi-stage sampling procedures in selecting a sample from the study population (1208). At the first stage, random sampling was used to select five (5) PSOs out of the seventy (70) public organisations (PAC/PEC Report, 2016). The five PSOs that were chosen produced up-to-date strategic plans and related policy documents. At the second stage, a sample frame for senior public servants was created and probability proportional-to-size sampling technique was applied to the sample frame to determine the sample size. This sampling technique was used to select senior public servants on grades 8-12 and above in the selected PSOs for questionnaire administration. Thus, the total sample size for this study was 361 and was determined. This sampling technique was used to ensure adequate representation of the PSOs irrespective of their population. With this, each PSO received copies of questionnaire corresponding to its size within the study population. The senior public servants of PSOs were selected for questionnaire administration because they were responsible for the formulation and implementation of strategic plans, related-policies as well as their roles, proficiency and experiences in strategic planning, implementation and public service delivery issues in the sampled PSOs.

At the third stage, convenient sampling was used to select 30 beneficiaries of public services for each PSO (total of 150 beneficiaries for the 5 PSOs). Convenient sampling was used to select beneficiaries (consumers) of public service because the researcher could not obtain a list containing the number of beneficiaries (consumers) from each PSO, which was one of the limitations of this study. The selection of beneficiaries of public services was based on their role as end-users of public services and experience in public service delivery issues of the selected PSOs. Hence, the study administered a total of 361 copies of questionnaire to the selected respondents from PSOs and beneficiaries. The target respondents for the study comprised stakeholders of PSOs such as Directors, Senior Managers, Senior Public Servants, and relevant beneficiaries (consumers) of the selected PSO. Senior public servants were selected based on their roles, proficiency and experience in strategic planning, implementation and public service delivery issues, while convenient sampling was used to select beneficiaries (consumers) for each PSO. The study addressed the beneficiaries (consumers) of public services directly as representatives of the interests of the Gambian citizenry. The number of senior public service respondents that were randomly selected from each PSO for questionnaire administration was as follows: GCCPC (4), GRA (40), NAWEC (100), PURA (6), and UTG (61). The total number of beneficiaries that were conveniently selected for questionnaire administration was 150.

#### *Measurement of Variables*

The independent variable of this study was strategic plans implementation and the dependent variable was public service delivery. These variables were investigated to accomplish two objectives of the study. To accomplish the objectives of the study, assertions were set under each objective utilising Likert rating scales as measurement of variables. Questionnaire was administered to categories of respondents in PSOs in the study areas. These types of measurements of variables produced categorical responses required to achieve the specific objectives of the study. The measurement of variables in this study was based on five-point Likert scale to elicit answers from respondents. The Likert scales that were used in the study were as follows:

For degrees of success: 5 = Excellent (E); 4 = Very Good (VG); 3 = Satisfactory (S); 2 = Fair (F); 1 = Poor (P). For degrees of effectiveness: 5 = Very Effective (VE); 4 = Effective (E); 3 = Not Sure (NS); 2 = Ineffective (I); 1 = Very Ineffective (VI). The Likert scales really helped in measuring the intensity of responses. Consequently, these quantitative responses were analysed utilising both descriptive and inferential statistics.

#### *Validation and Reliability of Instruments*

Content validity of the questionnaire and interview guide was face-validated by experts in measurement and evaluation to ensure that test items like the opinions of the subjects on content, language use, and clarity cover all the essential areas and objectives of the study. Experts in the discipline of public administration and social sciences carefully scrutinised and modified the questionnaire and interview guide to ensure the questions were clear, and relevant, and adequately covered the required domains for the variables under study. The responses to the interview guide were also checked against other sources of data such as published documents, textbooks, and journal articles. For the survey method, the researcher adapted some instruments of structured survey questionnaire (Elbanna, 2013; and Elbanna, Andrews & Pollanen, 2015) that addressed issues of strategic planning and

implementation. Subsequently, the researcher contacted, trained and contracted a research assistant from the School of Business and Public Administration of University of The Gambia to assist in the administration of questionnaire. Finally, the researcher and research assistant administered the questionnaire on the targeted respondents in The Gambia.

In addition, reliability measures the extent to which the research instruments seem capable of gathering real responses on the subject matter under investigation. Consequently, the researcher conducted a preliminary study to pre-test the questionnaire by administering it on a subset of the study population. The consistency of responses to the questionnaire ensured the reliability of the instruments. To this end, the reliability of the instruments was derived from the result of test and re-test to find the reliability co-efficient between the results of the test and re-test.

However, internal consistency technique was used to estimate the reliability of measurement scales for this study; and for this purpose, Cronbach's alpha coefficient indicator was used. For this study, Cronbach's alpha  $\alpha = 0.8$  which could be interpreted as a correlation coefficient whose value ranged from 0 to 1. It measured the extent to which items in the scales were internally consistent with one another. Generally, Cronbach's coefficients that are below 0.6 are poor, above 0.7 are acceptable, while coefficients that are higher than 0.7 are considered good. Thus, the closer the Cronbach's coefficients are to 1, the better.

#### *Model Specification*

To establish the relationship between strategic plans implementation and PSD, the following model was used to examine the extent of impact of strategic plans implementation on PSD in in PSOs in The Gambia:

$$\begin{aligned} \text{PSD} &= f(\text{SPI}) \\ \text{PSD}_i &= \alpha + \beta \text{SPI}_i + e_i \\ \text{where:} \\ \text{PSD}_i &= \text{Public Service Delivery} \\ \text{SPI} &= \text{Strategic Plan Implementation} \\ &\text{A prior expectation } \beta > 0 \end{aligned}$$

### **Results and Discussion of Findings**

The perspectives of the senior public servants and beneficiaries as drawn from two sets of questionnaire, were analysed in this section. It had three (3) sub-sections. The first assessed strategic plans implementation success, the second examined the efficiency of impact of the strategic plans implementation; and the third looked at the effectiveness of impact of strategic plans implementation on public service delivery in the study area.

#### *Assessment of Strategic Plans Implementation Success*

This sub-section aimed at assessing strategic plans implementation success in strategic plans application within public service organisations in the study areas. To achieve this, respondents were asked to rate the degree of success on each assertion listed to assess strategic plans implementation success in the formulation and application of strategic plan formulation. The assertions' values/responses were organised using Likert scale of

measurements, such as: Excellent (5), Very Good (4), satisfactory (3), Fair (2) and Poor (1). In addition, the mean value ( $\bar{\chi}$ ) summarised the strength of respondents for each statement, using a decision rule as thus: where ( $\bar{\chi} > 2.5$ ), more respondents tended towards excellent success; and where ( $\bar{\chi} < 2.5$ ), more respondents tended towards poor success.

As shown in Table 1.1, 37 (18.2%) were rated to have excellent success and 51 representing 25.1% rated very good success when asked whether the employees' conditions improved as a result of the strategic plans implementation, while 53 (26.1%) of the respondents were satisfied with the success; and an aggregate of 49 (24.1%) of respondents were believed to have rated the success of this assertion as fair. Also, 13 representing 6.4% rated poor success as regards whether the employees' conditions improved as a result of the strategic plans implementation. This result showed a remarkable level of success with the assertion, though with either fair or poor success by 30.5% of respondents. The position was confirmed by mean value and standard deviation ( $\bar{\chi} = 3.25$ ,  $SD = 1.193$ ).

Furthermore, respondents were asked to rate the degree of success and whether there was an upward shift in the operations of respondents' organisations in service delivery to the public. In their response, an aggregate of 30 (14.8%) rated excellent success and 65 representing 32.0% rated very good success when asked whether there was an upward shift in the operations of respondents' organisations regarding service delivery to the public. About 58 (28.6%) of respondents were satisfied with the success; and an aggregate of 40 (19.7%) of respondents were believed to have rated the success of this assertion as fair, also 10 representing 4.9% rated poor success on whether there was an upward shift in the operations of the respondents' organisations in service delivery to the public between. This result showed a considerable level of success with the assertion, though with either fair or poor success by 24.6% of respondents. The position was confirmed by mean value and standard deviation ( $\bar{\chi} = 3.32$ ,  $SD = 1.100$ ).

Respondents were asked to rate the degree of success and whether the operations of the respondents' organisations have positively affected service delivery to the public. In their response, an aggregate of 40 (19.7%) rated excellent success, and 60 representing 29.6% rated very good success when asked whether the operations of the respondents' organisations have positively affected service delivery to the public. About 62 (30.5%) of respondents were satisfied with the success; and an aggregate of 35 (17.2%) were believed to have rated the success of this assertion as fair, also, 6 representing 3.0% rated poor success on whether the operations of the respondents' organisations have positively affected service delivery to the public. This result showed a remarkable level of success with the assertion, though with either fair or poor success by 20.2% of respondents. The position was further confirmed by mean value and standard deviation ( $\bar{\chi} = 3.46$ ,  $SD = 1.082$ ).

On the other hand, 29 (14.3%) rated excellent success and 68 representing 33.5% rated very good success when asked whether the strategic plans implementation have facilitated the achievement of the respondents' organisations' strategic goals and objectives. About 50 (24.6%) of the respondents were satisfied with the success; and an aggregate of 46 (22.7%) were believed to have rated the success of this assertion as fair, also, 10 representing 4.9% rated poor success on whether strategic plans implementation have facilitated the achievement of the respondents' organisations' strategic goals and objectives. This result showed a notable level of success with the assertion, though with

either fair or poor success by 27.6% of respondents. The position was confirmed by mean value and standard deviation ( $\bar{\chi} = 3.30, SD = 1.113$ ).

As presented in Table 1.1, respondents were asked to rate the degree of success to which overall assessment of the rate at which the respondents' organisations successfully implemented strategic plans. In their response, an aggregate of 22 (10.8%) rated excellent success, and 51 representing 25.1% rated very good success when asked whether the overall assessment of the rate at which the respondents' organisations successfully implemented strategic plans. About 56 (27.6%) of respondents were satisfied with the success; and an aggregate of 55 (27.1%) were believed to have rated the success of this assertion as fair, also, 19 representing 9.4% rated poor success on whether the overall assessment of the rate at which the respondents' organisations successfully implemented strategic plans. This result showed a significant level of success with the assertion, though with either fair or poor success by 36.5% of the respondents. The position was confirmed by mean value and standard deviation ( $\bar{\chi} = 3.01, SD = 1.156$ ).

**Table 1: Assessment of Strategic Plans Implementation Success**

S/N	Assertions	Excellent	Very Good	Satisfactory	Fair	Poor	Descriptive Statistics	
		f and (%)	f and (%)	f and (%)	f and (%)	f and (%)	Mean Value	Standard Deviation
i.	The employees' conditions have improved as a result of strategic plans implementation	37 (18.2)	51 (25.1)	53 (26.1)	49 (24.)	13 (6.4)	3.25	1.193
ii.	There was an upward shift in the operations of the respondent's organisation regarding service delivery to the public	30 (14.8)	65 (32.0)	58 (28.6)	40 (19.7)	10 (4.9)	3.32	1.100
iii.	Generally, the operations of the respondent's organisation have positively affected service delivery to the public	40 (19.7)	60 (29.6)	62 (30.5)	35 (17.2)	6 (3.0)	3.46	1.082
iv.	The strategic plans implementation have facilitated the achievement of the respondent's organisation's strategic goals and objectives	29 (14.3)	68 (33.5)	50 (24.6)	46 (22.7)	10 (4.9)	3.30	1.118
v.	Overall assessment of the rate at which the respondent's organisation successfully implemented its strategic plans	22 (10.8)	51 (25.1)	56 (27.6)	55 (27.1)	19 (9.4)	3.01	1.156

Source: Field Survey (2019) NB: f=Frequency; %=Percentage

*Effectiveness of Strategic Plans Implementation Impact on Public Service Delivery in The Gambia*

This section presented data analysis for assessing the effectiveness of strategic plans implementation impact on public service delivery within the study area. Table 1.2 showed the frequency and percentage distribution of respondents on each assertion and its values/responses were organised using Likert scale of measurements, such as: Very Effective (5) Effective (4), Not Sure (3), Ineffective (2) and Very Ineffective (1). In addition, the mean value ( $\bar{\chi}$ ) summarised the strength of the respondents for each statement, using a decision rule as thus: where ( $\bar{\chi} < 2.5$ ), more respondents tended towards ineffectiveness; and where ( $\bar{\chi} > 2.5$ ), more respondents tended towards effectiveness.

As shown in Table 1.2, the following distributions were observed when respondents were asked whether strategic plans helped employees deliver satisfactory services to the public. Responding, 33 (23.2%) of the respondents claimed the assertion was very effective, while 76 (53.5%) of respondents believed it was just effective. However, 3 representing 2.1% of respondents believed that strategic plans helped employees deliver satisfactory services to the public as very ineffective, and 19 (13.4%) claimed it was ineffective. However, 11 (7.7%) of respondents were not sure as regards this assertion. The implication was that strategic plans helped employees deliver satisfactory services to the public and was considerably effective, as verified by the mean value and standard deviation ( $\bar{\chi} = 3.88$ ,  $SD = 0.926$ ).

Furthermore, when asked whether strategic plans allowed employees accomplish the aims and objectives of public service delivery. Reacting to this, 31 (21.8%) of respondents claimed the assertion was very effective, while 67 (47.2%) believed it was just effective. However, 1 representing 0.7% of the respondents believed that strategic plans allowed employees accomplish the aims and objectives of public service delivery as very ineffective and 19 (13.4%) felt it was ineffective. But, 24 (16.9%) of respondents were not sure as regards this assertion. This implied that strategic plans allowed employees to accomplish the aims and objectives of public service delivery and was considerably effective, as verified by the mean value and standard deviation ( $\bar{\chi} = 3.76$ ,  $SD = 0.967$ ).

In addition, when asked whether strategic management resulted in improved quality service delivery to the public. Responding to this assertion, 34 (23.9%) of respondents claimed the assertion was very effective, while 63 (44.4%) of believed it was effective. However, 2 representing 1.4% of respondents believed that strategic management resulted in improved quality public service delivery to the public as very ineffective and 22 (25.4%) claimed it was ineffective. The implication was that strategic management resulted in improved quality service delivery to the public and was considerably effective, as verified by the mean value and standard deviation ( $\bar{\chi} = 3.74$ ,  $SD = 1.036$ ).

As presented in Table 1.2, 30 (21.1%) of the respondents claimed the assertion was very effective, while 64 (45.1%) of respondents believed it was effective, when asked whether strategic plans contributed to the achievement of the organisations' public service delivery objectives. However, 3 representing 2.1% of the respondents believed that strategic plans contributed to the achievement of the organisations' public service delivery objectives, was very ineffective and 16 (11.3%) of respondents claimed it was ineffective. But, 28 (19.7%) of respondents were not sure as regards this assertion. The implication was that strategic plans contributed to the achievement of the organisations' public service delivery objectives with considerable effectiveness, as verified by the mean value and standard deviation ( $\bar{\chi} = 4.01$ ,  $SD = 1.052$ ).

Moreover, respondents were asked to assess the effectiveness in the assessment of operations of public service organisations regarding service delivery to the public. Responding, 29 (20.4%) of the respondents claimed the assertion was very effective, while 48 (33.8%) believed it was just effective. However, 10 representing 7.0% of the respondents believed that assessment of operations of public service organisations regarding service delivery to the public was very ineffective, and 47 (33.1%) claimed it was ineffective. The implication is that the assessment of operations of public service organisations regarding service delivery to the public was moderately effective, as verified by the mean value and standard deviation ( $\bar{\chi} = 2.98$ ,  $SD = 1.088$ ).

Finally, 38 (26.8%) of the respondents claimed that generally, the operations of public service organisations have positively affected service delivery to the public during the study period and was therefore very effective, while 50 (35.2%) believed it was just effective. However, 14 representing 9.9% of respondents believed that generally, the operations of public service organisations have positively affected service delivery to the public and as such, very ineffective and 31 (21.6%) claimed it was simply ineffective. But, 9 (6.3%) of the respondents were not sure as regards this assertion. The implication is that generally, the operations of public service organisations positively affected service delivery to public and was considerably effective, as verified by the mean value and standard deviation ( $\bar{\chi} = 3.06$ ,  $SD = 1.106$ ).

**Table 2: Effectiveness of Strategic Plans Implementation Impact on Public Service Delivery in The Gambia**

S/N	Assertions	Very Effective	Effective	Very Ineffective	Ineffective	Not Sure	Descriptive Statistics N=142	
		f and (%)	f and (%)	f and (%)	f and (%)	f and (%)	Mean Value	Standard Deviation
i.	Strategic plans helped employees deliver satisfactory services to the public.	33 (23.2)	76 (53.5)	3 (2.1)	11 (7.7)	19 (13.4)	3.88	0.926
ii.	Strategic plans allowed employees to accomplish the aims and objectives of public service delivery.	31 (21.8)	67 (47.2)	1 (0.7)	19 (13.4)	24 (16.9)	3.76	0.967
iii.	Strategic management resulted in improved quality service delivery to the public.	34 (23.9)	63 (44.4)	2 (1.4)	22 (25.4)	21 (14.8)	3.74	1.036
iv.	Strategic plans contributed to the achievement of the organisations' public service delivery objectives.	30 (21.1)	64 (45.1)	3 (2.1)	16 (11.3)	28 (19.)	4.01	1.052
v.	Assessment of operations of public service organisations regarding service delivery to the public.	29 (20.4)	48 (33.8)	10 (7.0)	47 (33.1)	8 (5.6)	2.98	1.088
vi.	Generally, the operations of public service organisations have positively affected service delivery to the public.	38 (26.8)	50 (35.2)	14 (9.9)	31 (21.6)	9 (6.3)	3.06	1.106

Source: Field Survey (2019) NB: f=Frequency; %=Percentage

To statistically assess the effectiveness of perceived strategic plans implementation impact on public service delivery (PSD), the study subjected the descriptive analysis of senior public servants on the implementation success of strategic plans in public service organisations (PSOs) (See, **Table 1.1**) and descriptive analysis of beneficiaries on strategic plan effectiveness on PSD in The Gambia (See, **Table 1.2**) to simple linear regression using a hypothesis for the inferential test guide. To test this statistical significance, the data in **Table 1.1**, were used to measure the successful implementation of strategic plans in PSOs;



and that in **Table 1.2**, measured the expected effectiveness of impact on public service delivery in The Gambia. Therefore, simple regression analysis was employed to assess the impact of the independent variable (implementation of strategic plans in PSOs), on dependent variable (PSD). **Table 1.3** indicated the model summary of the simple regression equation that predicted significant impact of the implementations of strategic plans on public service delivery in public service organisations since  $R = .614 > 0$ ,  $R^2 = .377$ ,  $F(5, 149) = 17.409$ ;  $p < .05$ . The explanations of the values presented were given below.

The model summary table provided useful information on regression analysis especially, the ‘simple R’ column which is the correlation between the observed independent variable and predicted dependent variable. It stated the proportion (percentage) of the (sample) variable in the dependent variable that could be attributed to the independent variable(s). Thus, the study showed that 61% of most variations in public service delivery in The Gambia could be accounted for through the implementations of strategic plans in public service organisations. This implied that the regression analysis confirmed the hypothesis since  $r > 0$  and  $p < 0.05$ . The outcome of this survey showed that the implementation of strategic plans in public service organisations in The Gambia had significant impact on public service delivery in The Gambia. However, the significance of this impact was not minor.

Furthermore, the effectual level of implementation of strategic plans could only account for one-third ( $\frac{1}{3}$ ) of the changes in public service delivery in The Gambia, as showed by  $R^2 = 0.377$ , indicating 37% effective level within its 61% significant association. Also, the analysis of regression indicated significant impact between the implementations of strategic plans in public service organisations and delivery of public services in The Gambia ( $F(5, 149) = 17.409$ ;  $p < .05$ ). However, the adjusted  $R^2$  showed the extent to which the effectual level of the implementations of strategic plans and public service delivery in The Gambia could reach with standard error of 0.884. This is an indication that the extent to which strategic plans implementation impacted on public service delivery in The Gambia during the period of review was high.

**Table 3: Model Summary of Simple Regression for the Implementation of Strategic Plans in PSOs and PSD in The Gambia**

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
	.614 <sup>a</sup>	.377	.355	.884		
ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	68.068	55	13.614	17.409	.000 <sup>b</sup>
	Residual	112.605	1144	.782		
	Total	180.673	1149			

Source: Author’s Computation (2019)

The results of the study on the assessment of strategic plans implementation success indicated that PSOs in The Gambia achieved remarkable levels of success in their strategic plans implementation during the period under review with overall percentages (of excellent, very good and satisfactory) and mean values ( $\bar{\chi} > 2.5$ ) for all five (5) assertions verified by standard deviations: the employees' conditions have improved as a result of the strategic plans implementation; and there was an upward shift in the operations of

respondents' organisations regarding service delivery to the public. Moreover, generally, the operations of respondents' organisations have positively affected service delivery to the public (79.8%); strategic plans implementation have facilitated the achievement of respondents' organisations' strategic goals and objectives (72.4%); and overall assessment of the rate at which the respondents' organisations successfully implemented their strategic plans (63.5%).

These findings acknowledged strategic planning and management scholars (Schweiger and Sandberg, 1991; Elbanna, Thanos and Colak, 2014; Kabeyi, 2019) who posited that if strategic decisions are successfully implemented, organisational aims and objectives could be achieved. Boyne and Walker (2010) asserted that strategy in the public sector is "a means by which organisations can improve their performance and provide better services". The results of this study on strategic plans implementation success of PSOs in The Gambia corroborated this assertion. Also, the study supported the findings of Elbanna, Andrews and Pollanen (2015) that found a positive link between formal "strategic planning and strategy implementation success" in the Canadian public service organisations. The results of this study also confirmed the study of George and Desmidt (2016) that a formal and participatory strategic planning process, contribute to positive outcomes for public organisations as well as findings of Bryson, Edwards and Van Slyke (2017) that strategic planning could be beneficial to organisations by producing desired results. The study also validated the earlier findings of Poister, Pitts and Edwards (2010) that strategic planning leads to improved outcomes, and that of Joyce (2015) that the success of a strategic plan will depend on the skills; motivation and values of the persons spearheading the strategic management tasks, the specified formulation of strategic management procedures being applied, the government organisations that provide the environment as well as the responses of individuals affected by the strategic management intervention.

The findings of the study on the effectiveness of strategic plans implementation impact on public service delivery in The Gambia in the study area showed that strategic plans implementation in the selected PSOs had significant effective impact on PSD with mean values ( $\bar{\chi} > 2.5$ ) for all six (6) assertions: strategic plans helped employees to deliver satisfactory services to the public; strategic plans helped employees accomplish the aims and objectives of PSD; and strategic management resulted in improved quality public service delivery to the public. Strategic plans contributed to the achievement of organisation's PSD objectives; the assessment of operations in PSOs on service delivery to the public is moderately effective; and generally, the operations in PSOs have positively affected service delivery to the public was considered to be considerably effective.

In sum, the overall findings of the survey on objective indicated that the implementation of strategic plans in public service organisations had significant impact on public service delivery in PSOs in The Gambia since  $R = .614 > 0$ ,  $R^2 = .377$ ,  $F(5, 149) = 17.409$ ;  $p < .05$ . This implies that the regression analysis confirmed the alternate hypothesis since  $r > 0$  and  $p < 0.05$ . Also, the analysis of regression indicated significant effect between the implementations of strategic plans in PSOs and delivery of public services in The Gambia ( $F(5, 149) = 17.409$ ;  $p < .05$ ).

The findings of the study corroborated the meta-regression analysis of George, Walker and Monster (2019) that "strategic planning has a positive, moderate, and significant impact on organisational performance in the private and public sectors, across international settings"; study of Tamimi *et al.* (2018) that strategic management practices had significant impact

on performance in public organisations in some Middle East countries; and analyses of Elliott *et al.* (2019) supporting the view that strategic planning made indirect contribution to performance in an organisation. The results also validated the results of Poister and Streib (2005) from the survey of strategic planning in municipal governments in the United States (US) that proposed strategies and developing action plans for implementing strategic initiatives were both positively associated with the perceived impact of strategic planning processes of cities. The study equally confirmed the findings of Andrews, Boyne, Law and Walker (2011), with a positive correlation between rational style of implementation and performance in organisations that highlight a defensive strategy; that an organisation's "strategy and its implementation style matters in the performance of public organisations"; and concluded that implementation style could bring about difference to public services, but the style that works best is dependent on organisational strategy.

Furthermore, this study confirmed the findings of Elbanna (2013), which showed that strategic planning in the UAE federal and local organisations had large beneficial impacts. The findings also supported the study of Pasha, Poister and Edwards (2015) on the US single-purpose local transit agencies, with a positive impact of formal strategic planning; and the study of Elbanna, Andrews and Pollanen (2015) on "strategic planning and implementation success in the Canadian public service organisations", and established a positive link between "formal strategic planning and implementation success", as facilitated by managerial involvement, became more noticeable in the face of uncertainty of stakeholders. The results this study equally affirmed the findings of Sawaneh (2022) who concluded that organisational strategic plan is significant because the "efficiency and effectiveness of public service delivery" cannot be achieved without a plan. In addition, the results of this study corroborated the findings of Johnsen (2017) on the "impacts of strategic planning and management in municipal government: an analysis of subjective survey and objective production and efficiency measures in Norway", whose moderated multiple regression analysis of the study indicated that "strategic planning and a defender strategy" had perceivable significant impacts. The analysis of Johnsen (2017) with administrative data for performance revealed slight significant effects of strategic planning, strategy content and stakeholder participation.

Finally, the results of the study's objectives acknowledged Systems Theory of Easton (1957) where the authorities in the political system transformed the inputs from both internal and external environment into outputs i.e., decisions and actions, which might be compared to the Gambian PSOs operating within a wider system, having different directorates, departments, or units; playing significant roles in delivering services to the public. This is because managers of PSOs in The Gambia are responsible for the processing of inputs i.e., human resources and material resources into outputs – services and products.

## **Conclusion and Policy Recommendations**

The study investigated strategic planning practices for public service delivery (PSD) in The Gambia, and examined the success, and effectiveness of strategic plans implementation impact on PSD in the study area. This study revealed that strategic plans implementation in PSOs was remarkably effective, and had positive impact on public service delivery. The study showed that there was an established nexus between strategic planning and public service delivery in the country. Simple linear regression analysis indicated significant

impact between strategic plans implementation in public service organisations and public service delivery in the study area. The findings of the survey objective revealed that the implementation of strategic plans in public service organisations had significant impact on public service delivery in The Gambia since  $R = .614 > 0$ ,  $R^2 = .377$ ,  $F(5, 149) = 17.409$ ;  $p < .05$ . The findings concluded that strategic planning played a significant role for PSD in The Gambia.

In view of the findings of this study, the following specific policy and general recommendations were advanced for effective public service delivery in The Gambia. These specific policy and general recommendations would assist public service organisations in achieving the objectives of public service delivery, increase the impact of strategic plans implementation on service delivery nationwide:

1. Prepare a Bill and formulate a Policy on public service strategic planning and management that will make it mandatory for public service organisations to formulate, implement and evaluate strategic plans and submit progress reports to their line ministries and the National Assembly after two years of devising the plans.
2. The National Assembly should legislate and establish a development and monitoring agency/commission to be specifically charged with the responsibility of monitoring the formulation, review, implementation and evaluation of strategic and development plans.
3. To increase strategic plans implementation success and its impact on public service delivery, the government should augment the amount of monthly subventions by making sufficient budgetary allocations to PSOs to enable them provide adequate facilities and infrastructure, strategic planning and management professionals and expertise with a view to fulfilling their constitutional mandates of providing the required services to the public.

### **Implications of the Findings**

A few studies such as, Boyne and Gould-Williams (2003); Walker and Boyne (2006); Poister, Edwards, and Pasha (2013); Andrews, Boyne, Law and Walker (2011); and Edwards (2012) have established the relationship between strategic planning and various aspects of performance in the public sector; and Williams and Lewis, (2008); Elbanna (2013); Elbanna, Andrews and Pollanen (2015); Johnsen (2015); Hansen and Ferlie (2016); George and Desmidt (2016); and Höglund, Holmgren, Mårtensson and Svärdesten, (2018) investigated and examined strategic management in the public sector and/or strategic planning and public service organisations with no scholarly attention to strategic management and public service delivery in The Gambia. Nevertheless, there were little documented empirical study (Sawaneh, 2021a, 2021b; Sawaneh, 2022) on strategic management and public service delivery in the Gambian public sector. The framework of the study and contribution to knowledge in the context of public service in The Gambia could help public strategic managers and officers in other organisations to reflect on the outcomes of this study and apply same in their organisations. Consequently, the gap this study addressed could provide an outlook for reflection on previous studies to current research.

### Limitations of the Study

Limitations are common characteristics of any scientific research particularly in social sciences where researchers are directly involved in the phenomenon under investigation. This study encountered a number of constraints. First, the researcher could not obtain a list containing the number of beneficiaries (consumers) from each PSO, which was one of the constraints of this study. Another major problem faced was the bureaucratic procedure involved in getting approval for the administration of questionnaire for senior public servants of PSOs. The busy schedule and reluctance of some respondents especially, government officials proved difficult in retrieving copies of questionnaire, which resulted in the researcher and research assistant paying several visits to the offices to administer questionnaire. However, a considerable number of copies of questionnaire were retrieved from the field. These constraints, nevertheless, did not hamper the realisation of the study objectives, because the inaccessible information was not part of the main emphasis of this study, and the results of the findings were not seriously affected.

### Suggestions for Future Research

To further advance and expand the frontier of knowledge on strategic planning and public PSD in The Gambia and beyond, this study suggested that a study should be conducted on comprehensive strategic management audit of the mainstream civil service of The Gambia to assess the effect of strategic planning on civil service performance. This is because this study did not focus on the central government civil service performance but on public service organisations alone (public agencies/institutions and public enterprises). Furthermore, the study recommended conducting a comprehensive SWOT analysis/assessment of PSOs, reviewing their mandates, visions and missions as well as organisational and strategic leadership.

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## EXPLORING THE NILE WATER DISCOURSE IN ETHIOPIA AND EGYPT: SECURITIZATION OR DEVELOPMENTAL?

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**Abstract:** *For centuries, the Nile water has been at the heart of deteriorated relations between Egypt and Ethiopia and, more than ever before, this tension has reached to its climax since the inauguration ceremony of the Grand Ethiopian Renaissance Dam project. The objective of this article was, therefore, to critically analyze the Nile water discourse, in Egypt and Ethiopia, often leading to irreconcilable interests and, by so doing, to add some insights on its viability to justify the resource curse and resource scarcity literatures in the field of security and conflict studies. Through a qualitative document review and discourse analysis of the key speeches of state officials in Egypt and Ethiopia, it was found out that the successful securitization of the Nile water in Egypt and the ongoing securitizing move of the same water resource in Ethiopia has been further complicating the Nile issue by producing more irreconcilable interests and tensions among the riparian states. Therefore it is recommended that rather than pushing a merely water resource issue to the level of an existential threat it is better for the riparian states to primarily focus on improving the life condition of their people (human security) and such reorientation will ultimately lead to a sustainable win-win solution for the whole Nile basin states.*

**Keywords:** *Existential threat, human security, securitization, securitizing move, water discourse*

### Introduction

Water is one of the most abundant natural resources on earth and almost three-fourths of the planet is covered with water. But about ninety-eight percent of this water reserve is not usable (Wallenstein & Swain, 1997: 1). Only the remaining two percent is freshwater readily available for consumption. Even a large stock of this freshwater reserve is largely found in the permanent ice-covered and snow-covered areas (Tignino, 2010: 647). By extension, most of the fresh water resource readily available for consumption is found in freshwater lakes and rivers, which constitute only 0.26 percent of the freshwater reserve of the Planet. This indicates that, as theoretically supported by resource scarcity literature, river water is a very scarce resource and hence it has the potential to trigger violent conflicts between and among states. The Nile river system is formed by the Blue Nile from Ethiopia and the White Nile from Lake Victoria, which meet at Khartoum and finally empties into the Mediterranean Sea down through Egypt. Various sources show that the water share of the Blue Nile River and White Nile River – two major tributaries of the Nile – is eighty-five percent and fifteen percent respectively. By extension, the greatest volume of the Nile water is constituted by the Blue Nile River originating from the highlands of Ethiopia. The Nile is the longest river in the world that travels a total distance of 6, 825 kilometers from its source to its mouth; and it forms the third largest basin in the world, after the Congo and Amazon rivers (Arsano, 2007). It is shared by eleven riparian Sub-Sahara African countries and the Nile River is a major source of freshwater used for human consumption,

agriculture, and industrial purposes for these countries, particularly in Egypt, Ethiopia and Sudan.

However, the downstream riparian states – Egypt and Sudan – have yet enjoyed the greatest share (more than the rest nine upper riparian states combined) of the Nile water utilized for irrigation agriculture, generation of hydroelectricity, fishing, domestic consumption and industrial purposes. Beyond this hegemony in terms of actual water utilization, Egypt and Sudan have almost always claimed total control over the Nile water and, among others, this is clearly manifested in their repeated recitation of what they called ‘natural rights’ (mainly by Egyptians) and the 1929 colonial treaties and the later 1959 bilateral agreement between Egypt and Sudan as final and technically binding. As properly described by Cascao (2008), the lower riparian states, particularly Egypt, have historically a hegemonic position on the Nile water and this hegemony has very recently been challenged to some extent by Ethiopia and some other upper riparian states. This has ultimately been deteriorating the already strained diplomatic relations (and creating hostilities) between Ethiopia on one side, and Egypt and Sudan on the other. This tension between Ethiopia and the lower basin states has reached to its zenith with the first day of the inauguration ceremony of the construction of the Grand Ethiopian Renaissance Dam (hereinafter, GERD) project on the Blue Nile River on the 30th of March 2011. Egypt’s natural and historical rights assertion to monopolize the Nile water on the one hand and the recent Ethiopia’s move to the issue of ‘sovereignty right’ or at least the issue of equitable utilization of the Nile water on the other hand appears to further escalate their historically inimical relations ultimately leading to water wars.

The securitization of water sources has already been studied by some scholars in other contexts; but the securitization of the Nile water and the subsequent challenges this may pose a tough bar against initiating fruitful dialogue and negotiations leading to a sustainable win-win solution for the utilization of the Nile water is not yet well examined. It appears that all initiatives so far made to find political solutions to the Nile water issue have been ultimately failed mainly due to the securitization of the water. The fact is that in the context of securitization, political or any other soft solutions to any issue will be pushed off the table.

The objective of this article is, therefore, to critically analyze the dominant water discourse in Egypt and Ethiopia and the challenges associated with it by bringing the securitization theory of the Copenhagen School as an analytical lens and, in the process, to add some insights on its viability to justify the resource curse and resource scarcity literatures in the field of conflict and security studies. We argue that the resource curse and resource scarcity literatures in conflict and security studies are best explained by the Nile water than any other natural resource, at least in Africa.

To this end, document review and discourse analysis have been used as a principal method to understand the water discourse in Egypt and Ethiopia and then to draw conclusions and the way forward. In order to achieve this end, first, in addition to the natural and historical rights claims, the key speeches of Egyptian state officials across history have been critically analyzed and interpreted. Then, on the Ethiopian side, the key speeches of the Ethiopian state officials have been intentionally made since the inauguration ceremony of the GERD project in March 2011 because in line with the analytical focus of the article the ‘sovereignty right’ and subsequently the ‘securitizing move’ on the Nile water have begun to surface very recently along with the GERD project.

### **Analytical framework**

Informed by the Hobbesian conception of human nature, the traditional neorealist perspective considers conflict or war as an inherent human phenomenon and thus inevitable in human interactions. In this perspective, the international system is generally considered as anarchic, meaning the absence of international government or absence of "...international authority that can enforce agreements and prevent the use of force" (Glaser, 2013, p. 14). By extension, traditionally national security has been exclusively understood as a state's ability to survive in this "anarchic" and "self-help" international system (Kay, 2015; Šulovic, 2010). Accordingly, national security threats have been considered external in origin and militaristic in character (Glaser, 2013; Wing, 2000). Thus in this traditional school of thought the state was not only considered as the primary referent object or the legitimate entity to be secured or protected against any threat but also as the only provider of security. In order to achieve this end, building strong militaries (and economies) capable of averting external aggression was the main preoccupation of states.

However, at the end of the twentieth century, mainly in the 1990s, this traditional state-centric and territorialist understanding of security has been seriously challenged with the emergence of the critical schools of thought in security studies. The shift in the perception of threats and the referent object or unit of analysis has led to the widening (horizontal inclusion of threats) and deepening (redefinition of referent objects) of the concept of security. The critical school of security studies argues that states are not the only referent object and the only providers of security. This broadened and deepened conceptualization of security is mainly attributed to the intellectual contributions of the Copenhagen School. Conceptually, the Copenhagen School treats security issues as inter-subjective and socially constructed (Nyman, 2013). By extension, security issues or threats are not objective and external; rather they are constructed and determined by dominant actors through inter-subjective interactions. Hence, as stated by Buzan, Waever, and de Wilde (1998), the Copenhagen School has deepened the conceptualization of security by including actors beyond the state as the referent object; and it also has broadened the traditional politico-military conception of 'security' by incorporating some sectoral issues such as political security, economic security, social security and environmental security into the security equation. Thus the issue of hydro-securitization seems to emerge from this broader understanding of the concept of 'security' by the Copenhagen School.

Securitization is understood as the process in which an issue moves from a non-political to politicized and finally to a securitized status through "discursive linguistic processes" (Buzan, Waever, & de Wilde, 1998: 22). In this context, any issue can be politicized and it becomes a subject of public policy debate; but the issue will be securitized when a dominant actor who has the required authority, power and resource frames it as an existential threat to the referent object (Emmers, 2011). This means that a previously non-political issue can be transferred to a political issue and finally promoted to the level of a security concern or an existential threat (perceived or real) to the designated referent object through mere framing (ibid). A certain public issue gets securitized means that it is transferred to the level of above politics and hence it justifies the use of extraordinary measures to achieve it.

Securitization is also considered as a "speech act" (Nyman, 2013) and hence an issue can be linguistically portrayed as existential threat to the referent object through mere act of speaking. But the issue will be successfully securitized when it is acknowledged and

accepted by the respective audience after a series of strong public debates. Therefore, a securitizing move is different from successful securitization. This is particularly true in most of the western liberal democracies where respect for fundamental human and democratic rights and rule of law have been more or less well grounded.

However, mainly due to the nature of the state structure in Egypt and Ethiopia, unlike the western democracies, the difference between a securitizing move and final securitization may be insignificant. By extension, when a state actor in Egypt and Ethiopia frame or spoke of an issue as an existential threat to the designated referent object, it might be automatically securitized without any substantial public debate. It follows that in these two states the speech act as the first stage of securitization is sufficient at least for the designation of an issue as an existential threat to the referent object. In this case, speech act can be understood as a securitization move and an issue can be promoted from producing securitization to becoming a security issue through consent or coercion by the dominant actor. This shows the power of language (even simply mentioning) in the process of securitization of an issue. With this understanding, the following analysis was made to explore whether the Nile water has been framed by the Egyptian and Ethiopian state elites as a security issue or developmental issue by looking at the key speeches of top government officials across time and space in the respective countries. In order to achieve this end, the article was informed by the Copenhagen School securitization and de-securitization theory as an analytical lens to understand the Egyptian and Ethiopian dominant state actors' perception of threat (real or perceived) and subsequent securitization by bringing historical and recent developments on the Nile water into perspective. Accordingly, first the water discourse or the framing of the Nile water in Egypt is presented and this will be followed up by exploring the Ethiopian case.

### **Contesting discourses and practices in Egypt and Ethiopia over the Nile**

The historical relations between Egypt and Ethiopia have been influenced to a greater extent by the Nile River. Such relations have often been characterized by suspicion and hostilities. In Ancient Egypt, the source of the Nile River was believed to have divine nature and for many years, most Egyptians believed that the source of the Nile is in the Egyptian soil. However, since the discovery of the source of the Nile, its relation with Ethiopia has become more hostile and suspicious. For instance, Egyptians long believed that Ethiopia could block the flow of the Nile water; and even the Ethiopian kings themselves were warning the sultanates of Egypt to divert the River as a means to stop the persecution of Christian Egyptian Copts (Erlich, 2001). On the other hand, Egypt has made repeated attempts to conquer Ethiopia and control the source of the Nile water. Even the conquest of Sudan by Egypt in the early nineteenth century was motivated by the desire to control the source of the Nile (ibid). Taking this brief historical context into perspective, let us look at the patterns of the Nile water discourse in Egypt and Ethiopia across time and space in the subsequent sections.

#### *The Nile water discourse in Egypt*

The analysis of the water discourse in Egypt has been made by bringing the natural and historical rights claims, the key speeches of dominant state actors, and the resource scarcity literature into perspective. Broadly speaking, in Egypt the water discourse over the Nile

relies on two grounds: viz., 'natural rights' and 'historical rights' claims and 'water scarcity.' The natural rights claims of Egypt on the Nile water have been made by citing its depiction by the renowned Greek historian, Herodotus, 'as the gift of the Nile' while the historical rights claims over the Nile have been made by taking the 1929 and 1959 colonial treaties as legally and technically binding. Egypt was depicted in the writings of Herodotus as 'the gift of the Nile' (Cascao, 2008) and this depiction has been used by successive Egyptian state elites to garner public support and to subsequently securitize the Nile water. Successive Governments of Egypt have used different tactics to ensure their monopoly over the Nile water. One of which was constructing historical and cultural identities (Gebresenbet & Yohannes, 2021) and state identity (Cascao, 2008) over the Nile and the other strategy was securitization. The claim that there is no Egypt without the Nile and vice-versa (Cascao, 2008) has been widely circulated by state officials and different media outlets to construct historico-cultural and state identities and to subsequently ensure monopolization over the Nile water for many years.

Furthermore, the 1929 Anglo-Egyptian Treaty and the 1959 Bilateral Agreement between Egypt and Sudan have been instrumental to sustaining this ambitious claim over the Nile. The 1929 Treaty gave Egypt a veto over the Nile and thus any riparian country cannot utilize a drop of the Nile water without her consent. The 1959 bilateral agreement also rationed the Nile water between Egypt (75 percent) and Sudan (25 percent) alone. This claim is best described in Gebresenbet's and Yohannes's (2021: 5) words, "...zero water for the upper riparians." In recent negotiations with Ethiopia and other upper riparian states over the utilization of the Nile water, Egyptians have still stuck to this so called 'historical right' as technically and legally binding. Accordingly, the Nile is framed in Egypt's Foreign Policy and National Security Strategy as a matter of survival. This hydro-securitization provides (internal) legitimacy for Egyptian elites to take extraordinary measures - beyond politics - when they feel that their water security is gravely threatened. In line with this, a slight cursor into the key speeches of the officials of Egypt from Anwar Sadat to the incumbent, Abdel Fattah el-Sisi, supports this position. For instance, in 1979 President Anwar Sadat stated that: "The only matter that could take Egypt to war again is water" (Kameri-Mbote, 2007: 1). Similarly, in opposition to the initial plan of Ethiopia to construct dams on the Blue Nile, Anwar Sadat also said: "We are not going to wait to die of thirst in Egypt, we will go to Ethiopia and die there" (Cropper, 2020: 1).

Similarly, in 1988, the former Egyptian Foreign Minister, Boutros Boutros-Ghali, also asserted: "The next war in the Middle East would be fought over the waters of the Nile, not politics" (Kameri-Mbote, 2007, p. 1). In a similar vein, President Mohamed Morsi also said: "If Egypt is the Nile's gift, then the Nile is a gift to Egypt...If it diminishes by one drop then our blood is the alternative" (BBC, 10 June 2013). Again, at the UN General Assembly held on 17 September 2019 the incumbent President, Abdel Fattah el-Sisi, stated that "...The Nile water is a matter of life and an issue of existence for Egypt..." From a discourse analysis of the above speeches of Egyptian officials across history we can easily infer that Egyptian state elites have attempted to ensure monopoly over the Nile water by resorting to offensive realism. Through avowing the country's dependence on the Nile water for domestic consumption, irrigation agriculture, hydroelectricity, fishing, industrial purposes and by sensitizing their citizens' natural, historical, cultural, emotional and spiritual attachment to the Nile River they have successfully securitized the Nile water. By so doing, Egyptian state elites have mobilized their citizens to get determined to engage in

any action when they felt that their water security is threatened. In the speeches of all Egyptian state elites - from Anwar Sadat to Abdel Fattah el-Sisi, - violence or war is presented as the only available alternative, nothing else, on the Nile issue. Of course, for different reasons until very recently Egyptian monopoly over the Nile water has not been significantly challenged and changed.

#### *The Nile water discourse in Ethiopia*

The Blue Nile is the most popular river in Ethiopia. The Nile water discourse in Ethiopia has religious backgrounds. It is believed that from the four rivers that flowed from the Garden of Eden was the Ghion, which is considered by the Ethiopian Orthodox Christians as the source of the Blue Nile. They believe that Mary and Jesus had spent a night at one of the Islands of Lake Tana - the source of the Blue Nile - on their journey from the Holy Land to Egypt. It is also believed that the Ark of the Covenant was found in one of the islands of Lake Tana – the source of the Blue Nile River – before it was taken to Axum (Oestigaard & Gedef, 2011; Tafla, 2000; Tadesse, 2008). Historically the Nile water discourse among most Ethiopians was characterized by dissatisfaction over their failure to successfully utilize it. But very recently, this discourse has begun to change and Blue Nile (locally known as Abbay) is presented as "a symbol of the nation." It is portrayed in the songs as a symbol of unity and greatness and "the waterfalls panorama" become a symbol of the Ethiopian currency and assumes a symbol of the nation (Tafla, 2000: 155). Even in some parts of Ethiopia, the Nile water is worshiped as if it has divine power to heal from evil spirits. This suggests that Ethiopians, just like Egyptians, have religious, spiritual and emotional attachment to the Nile water. Beyond this historical and spiritual attachment, Ethiopia had not yet significantly utilized the Nile River water. But very recently it embarked on the Grand Ethiopian Renaissance Dam project along the Blue Nile in March 2011. As security scholars say this significant event in the country alone may bring and justify a shift from normal politics to high politics. By extension, the beginning of the construction of the GERD on the Blue Nile may bring and justify a significant shift in water discourse in Ethiopia from normal politics to high politics or securitization. Accordingly, as a manifestation of this shifting water securitization discourse across time and space, the key speeches of Ethiopian state officials about the Nile River in general and the GERD in particular have been analyzed.

Accordingly, in the cornerstone laying ceremony of the GERD on the 30th of March 2011, the late Prime Minister, Meles Zenawi, had said: "No one can stop us from utilizing our rivers...Although we are poor, we are ready to pay any sacrifice...". He also told to the Al Jazeera English on 23 May 2010 that Egypt's attempt to stop Ethiopia from using its own water has become history. He added that it is wrong trying "to stop the unstoppable." In his speech, the late Prime Minister clearly noted that the Ethiopian Government is committed to engage with Egypt in every means possible.

The key speeches of the current PM, Abiy Ahmed, of Ethiopia over the Nile water also seems to share the perspectives of Meles Zenawi. In a recent parliamentary address, Abiy Ahmed affirmed his country's readiness to "mobilize millions" and go to war if the GERD project is threatened. Although the development discourse still persisted and affirmed by the Foreign Relations and National Security Policy and Strategy of Ethiopia, the key speeches made by the two successive prime ministers about the GERD have almost approached a securitizing move. This is simply because as developmental questions have

other alternatives, there may be no need for the Ethiopian state officials to use the terms “every option” and “to go to war” when the GERD (portrayed as a symbol of sovereignty) is threatened.

The previous prime minister of Ethiopia, Hailemariam Desalegn, has also depicted the Blue Nile as a source of national consensus and identity. He said: “There is national consensus among the Ethiopian people from north to south and east to west on the Abbay River and the GERD project about which even those who argue against us exactly knew it” (Ethiopian Television, 29 June 2013). It appears that the PM presented the GERD as instrumental to building a political community or citizens having a common identity. The idea that presenting the GERD as a symbol of unity and constructing state or national identity over it by the Ethiopian state elites is also shared among a number of scholars (Cascao, 2008; Gebresenbet & Yohannes, 2021). Moreover, on the Tenth Anniversary of the GERD, President Sahlework Zewde said that “It is a matter of survival and sovereignty to develop basins of the River Abbay.” She further noted that “GERD is a historic property of Ethiopians which they have been building it by sharing their wealth, time, labor and knowledge.” Again, on the first year filling of the GERD, the President declared that: “19 July 2020 will forever remain an historic day for Ethiopia and Ethiopians.” In line with the Copenhagen School conceptualization of securitization move, the President’s speeches obviously reflect a securitizing move over the GERD in particular. In her speech, the President promoted the GERD from a merely developmental issue to a matter of existential threat to the state; that is, from high politics to a more or less security issue which needs extraordinary measures when endangered. In short, the President portrayed the GERD issue as matter of sovereignty and survival of the state. In the Ethiopian Foreign Affairs and National Security Policy and Strategy (FDRE, 2002) and also properly described by Gebresenbet (2014: S65) poverty is officially framed as eminent threat to the survival and sovereignty of the state and its citizens. In his addressing to the Parliament about the GERD in July 2020, PM Abiy Ahmed also said that “Unless we alleviate poverty and ensure prosperity, there will not be any difference between living and not living....” Indeed, it is poverty rather than the Nile water officially declared as a national security threat. However, from the speeches of the different government officials of Ethiopia about the GERD project in particular and the Blue Nile in general, it appears that there is a clear securitizing move in recent years.

#### *Challenges of hydro-securitization for utilization of the Nile water*

From the analysis presented in the above sections, we can infer that the utilization of the Nile water by riparian states has several challenges. The first challenge emerges from the historical and natural rights claims over the Nile were mainly by Egypt. Following the portrayal of Egypt by Herodotus as “The gift of the Nile”, Egyptian state elites presented the Nile as Egypt itself and vice versa. They argue that as ‘Egypt is the gift of the Nile’, by default the Nile is given to Egypt. However, this claim has counter claims by Ethiopians as well (Tadesse, 2008). In as much as (even more) Egyptians claim that ‘Egypt is a gift of the Nile’, Ethiopians can assert that ‘the Nile is a gift of Ethiopia’ and this assertion could be justified by the fact that Ethiopia is the source of the (Blue) Nile River. However, such monolithic assertions over the Nile water by both Egyptian and Ethiopian state elites can take them nowhere, except merely complicating and deteriorating their historically strained relations. For instance, regarding Egypt’s natural rights claims over the Nile water, Cascao



argues that: The assertion that ‘Egypt is the Nile and the Nile is Egypt’ entails two fallacies. Firstly, Egypt is not just the Nile, i.e. Egypt is not as dependent on the Nile as it used to be. Secondly, the Nile is not just Egypt; the Nile is an international basin shared by ten riparian states (Cascao, 2008: 19). In the same vein, the late Prime Minister of Ethiopia, Meles Zenawi, also once said: “I know that some people in Egypt have old-fashioned ideas. Old-fashioned ideas based on the assumption that the Nile water belongs to Egypt and Egypt has the right to decide as to who gets what on the Nile water” (Al Jazeera, May 23, 2010). Meles Zenawi strongly protested against the “No Nile, No Egypt” assertion by saying: “The Egyptians have yet to make up their minds as to whether they want to live in the twenty-first or the nineteenth century ...” (Al Jazeera, December 9, 2013).

The same holds true for the Ethiopian state elites’ counterpart as well. The ‘natural sovereign right’ thesis very recently brought onboard by the Ethiopian state elites to challenge the Egyptian assertion needs to be critically evaluated in the context of existing international legal regimes and norms supposed to govern international rivers. Being the source of the Nile River many not exactly mean enjoying monopoly or control over the water resource by endangering the water needs of other riparians.

The second challenge emerges from the ‘historical right’ found in the 1929 colonial agreement, which gave Egypt the right to veto any project on the Nile. The colonial agreement generously guaranteed Egypt the right to decide on how to use the Nile water although, in reality, it does not contribute even one drop of water to the River. The 1959 bilateral agreement also gave the entire Nile water for Egypt and Sudan alone. Egypt has still stuck to these colonial treaties to continue as legally and technically binding. It appears that Egyptian state elites denied the fact that treaties can be challenged and changed any time in response to prevailing realities on the ground. In line with this, Erlich (2001) wrote: “In practice, however, the Egyptian interpretation of the “historic rights” concept is becoming less acceptable. There is a growing realization that Egyptian rights cannot exclude others” (p. 6). By recognizing the ‘equitable share’ thesis advanced by the Ethiopian state elites and the 1966 Helsinki Accords, Erlich (2001: 7) further noted: “The principle of equitable shares is indeed the polar opposite of historic rights.”

The third challenge emanates from hydro-securitization or the delineation of the Nile water as a national security issue in Egypt. The natural and historical rights claim and the subsequent securitization of the Nile water have elevated a mere water issue to the level of an existential threat for Egypt. By extension, such Egyptian state elites’ portrayal of the Nile water as an existential threat or as an issue of national security puts the water issue beyond politics, which requires extraordinary measures. This situation, among other things, gives no room for peaceful dialogue and negotiation so as to reach to a sustainable win-win solution with the upper riparian states.

The fourth challenge emerges from very recent developments in Ethiopia. In reaction to the Egyptian historical and natural rights claims over the Nile water, the Ethiopian state elites have brought the issue of ‘absolute territorial sovereignty’ (Arsano, 2007: 30) and securitization into perspective. In Ethiopia, particularly in recent years, the Nile water, particularly the GERD, has been pushed beyond normal politics by state elites. This securitizing move in Ethiopia – over the already securitized Nile water by Egypt – would further complicate the historically strained relations and recent tensions between these two riparian states. The successful securitization of the Nile water by Egypt and the recent securitizing move by Ethiopia means that any action that endangered (perceived or real)

their water security will be considered as an existential threat to national security and consequently, state elites in these two countries may decide to go to water wars at any time. The possibility of water war between these two states should not be undermined. Beyond the securitization thesis, a number of scholars (for instance, Gleick, 1993; Starr, 1991) also affirmed the possibility of major conflicts over water resources. In the words of Gleick: "Water already contributes to conflicts among nations, and future conflicts over water are increasingly likely. Nations fight over access to water resources...and use water-supply systems as instruments of war...." (Gerlick, 1993: 111). However, in arguing against the mythical assertion and the subsequent securitization of the Nile water, the Egyptians concern for water scarcity should not be undermined. Beyond the support by resource scarcity literature, there have been real declines in the volume of the Nile water reaching to the lower riparian states (Egypt and Sudan). In line with this, Paisley and Henshaw (2013: 3) reported that repeated measurements conducted over Lake Nasser showed that the general inflow from the Nile River has gradually declined. Similarly, Gleick (1993) also showed that in the Middle East countries and beyond, water consumption is much faster than the natural replenishment level.

### **Conclusion and implications**

The rivalry between Egypt and Ethiopia over the Nile water is generally grounded on two polar opposite principal claims: namely, the 'historical and natural rights' thesis by Egypt and the 'absolute sovereign rights' and 'equitable water share' thesis by Ethiopia. The political elites of the two countries have constructed own defined narratives and counter narratives instrumental to securitizing the Nile and ultimate control over its water. Egypt has securitized the Nile water in its foreign policy and national security strategy so that the Nile is presented as an issue of life and death. Therefore, any threat (perceived or real) to this water source is considered as a threat to its national security. That is why successive governments of Egypt have demonstrated their commitment, at least in rhetoric, to go to war when their principal water source is threatened. The public speeches of the dominant political figures of Egypt from Anwar Sadat to the incumbent Abdel Fattah el-Sisi are cases in point.

On the other hand, in Ethiopia, until very recently, it has been poverty rather than the Nile water resource officially framed by political elites as a national security threat. However, a discourse analysis of the key speeches of dominant political figures in Ethiopia across time and space showed that there is a securitizing move (not actual securitization) over the GERD Project. The available security studies literature indicates that this securitizing move alone (without successful securitization) can deteriorate international relations between and among states. Beyond this, in Ethiopia the distinction between securitizing move through speech acts and actual securitization may be insignificant. For instance, before its official declaration as a national security threat in the Ethiopian Foreign Affairs and National Security Policy and Strategy document, 'poverty' was iteratively portrayed by the late Prime Minister, Meles Zenawi, as a major national security threat to Ethiopia and, by so doing, he moved 'poverty' from a mere developmental issue to a national security agenda in 2002 without any significant public debate.

Accordingly, this article argues that the actual securitization of the Nile water by the Egyptian officials and the recent securitizing move by Ethiopian political elites may

produce even more irreconcilable interests and tensions over the utilization of the water resource. In the end, hydro-securitization may be an eminent threat to the security of the designated referent object (Egypt's and Ethiopia's national security) itself. For instance, the securitization of poverty by the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) led Government and the subsequent displacement of people in the suburbs of Addis Ababa on the eve of the 2018 'political reform' has led to mass protests and violence resulting in regime change and the subsequent current state insecurity. Similarly, for Egypt hydro-securitization may put its national security in the hands of other states (mainly Ethiopia) because practically the Nile water and its source are not in its hands. By extension, in Egypt hydro-securitization appears to beg future water wars with riparians that could endanger its own national security. For instance, recent developments show that Ethiopia and other riparian states may follow a different epistemic position over the Nile water parallel to Egypt. The Ethiopian state officials' recent securitizing move on the Blue Nile water in general and the GERD in particular by bringing the 'absolute sovereign rights' claims may be considered as a balancing act against the Egyptian water hegemony. If Ethiopia and other upper basin states, just like Egypt, equally securitize the Nile water, there will be apparent symmetry of interests (of course, inimical) in the urgency of the need for the same water resource, at least in the eyes of an external observer. The Upper riparian states (including Ethiopia) could assume that third party negotiators often take sides with Egypt partly because the Egyptian claim has often been portrayed as a question of survival or as an existential threat whereas the Ethiopian and other upper basin states claims have been presented primarily as a developmental issue which could have alternative pathways. This is to mean that, for a genuine third party negotiator, while the Ethiopian and other upper basin riparian states developmental claim has alternative pathways other than the Nile water (big dams like the GERD and large scale agricultural projects), the Egyptian national security or existential threat claim would not have such options. Apart from the geopolitical interests of the Western European states, the United States and the Arab world and the hard power and soft power supremacy Egypt has claimed over other riparian states, the upper riparian states may begin to think that its hydro-securitization policy has helped her any peaceful resolution efforts to sway in its favor and therefore they opt to follow the same strategy. Therefore, rather than elevating the issue of the Nile water to the level of national security or existential threat it would be better for Egypt and other upper riparian states (particularly Ethiopia) to focus primarily on human security. That is, rather than pushing their claim over the Nile water to the level of beyond politics and/ or national security threat, they should focus on how to improve the life condition of the people in the River basin. It is only through this path that peaceful dialogue and negotiations leading to a sustainable win-win solution not only for Egypt and Ethiopia but also the whole Nile basin states will be envisaged and achieved.

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## **COMPETITIVENESS AND ECONOMIC GROWTH. COMPARATIVE STUDY: ROMANIA - BULGARIA**

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**Abstract:** *In terms of structure, state and evolution of the economy in the last decades, Romania and Bulgaria have common characteristics, being similar also, from the development perspectives point of view, with goals and projections that are intertwined.*

*This study aims, on the one hand, to capture the economic situation as a whole, at the level of the two countries, and on the other hand to identify the best ideas, but also viable measures, which lead to the achievement of the set objectives, in the next period. At the same time, based on VAR - Vector Autoregression Model analysis, a correlation report is analyzed, which identifies three of the most important macroeconomic indicators, in the current economic environment, namely: public debt, gross domestic product, respectively investments. The reference period considered is between the years 2009 - 2021, with a quarterly frequency.*

**Keywords:** *economic development, public debt, macroeconomic indicators, vector autoregression model (V.A.R.)*

**JEL classification:** *C33, E44, E60*

### **Introduction**

The analysis of the economic situation must be seen, especially, from the perspective of the evolution of the phenomena that characterize it, which in recent years have shown important fluctuations. This fact is also due to some decisions that are taken at the community level, whether we are talking about NATO or the E.U. and which also affects the most sensitive economies in the region, whose economic development is dependent on financial support from international institutions. Reality confirms, once again, that we live in a dynamic environment, a globalization defined differently at the level of each state of the European Union and beyond, and in terms of the population's perception of the socio-political events taking place - in recent years - further accentuates the uneasiness regarding the continuation of the reforms, in the current economic environment. The pursued goal aims at economic development, as a whole, by appropriating the measures, assuming the responsibilities of the decisions taken - both by the political factors, decision-makers, and by the specialists who issue, approved, opinions, studies and strategies in this regard.

The specialized literature further argues these approaches, in an environment ground by socio-political, cultural (even inter-ethnic) turmoil, between certain pandemic waves - admittedly with an effect felt much more easily, by the population, as between March 2020 and February 2022, all of which culminated in the special military operation launched by Russia in Ukraine. This last conflict has increasingly significant repercussions on the business environment at European and even global level, and the strategies

thought/considered do not seem to take into account, at least declaratively or in the immediate period, compromises, political (or of any kind) for peace in the area. Russia, for example, argues that it "defends itself", and the support given to Ukraine is aimed, according to some specialists in the field, at "stopping Russia" from advancing and conquering new territories.

The accession of the countries of S-E Europe (Romania, respectively Bulgaria) to the European Union took place in 2007, broadly fulfilling the criteria of the Maastricht Treaty, but after the financial crisis, characterized by major imbalances (2008 - 2012), they seemed to no longer be so easy to respect, to implement. In this sense, a remodeling of them was discussed at the level of the Council of Europe, but without a specific result, but rather a greater flexibility, when it comes to the accession of another state to this community.

The objective pursued is represented by the analysis of the correlation between the public debt, the gross domestic product and investments, as the main macroeconomic indicators that characterize the current business environment, with its meanings on the one hand, and on the other hand, finding viable measures, and the strategies to follow for sustainable development in the medium and long term. The dynamics of events at the level of the European community, which implicitly also affected countries like Bulgaria or Romania, in recent years and even decades, were accompanied by major imbalances. Thus, on the one hand, the economic crisis, mentioned, when the world's strongest economies were also affected, referring to the USA, China, Germany and even Russia, and on the other hand, the COVID19 pandemic that started, according to the data, in November 2019 Wuhan - China and the consequences of which are still unknown.

The period of manifestation of these episodes did not leave time for recovery (the affected economies), a fact that further accentuated the problem of the country's deficit with its rather unpredictable impact. It is affecting economic stability and causing the growth, at an accelerated rate, of emergency medical expenses, first of all, then social, but also budgetary ones, which sooner or later affect the level of accumulated public debt but also on the population's income.

### **The scientific context**

The various studies and forecasts describe the evolution of the macroeconomic indicators, but also the relevant factors that reproduce at a given moment, the evolution and perhaps the state of equilibrium, if it exists, from the level of each state or group of states under analysis. Thus, during the conference "Bulgaria and Romania: Country Members of the EU, Part of the Global Economy" (Conference organized by Economic Research Institute, Bulgarian Academy of Sciences and Institute for World Economy at the Romanian Academy. Economic Research Institute, 2019), Irena Nikolova, argues the study, with the title: External debt and debt crises in European economies, in which it shows that the public debt was reviewed and analyzed from the perspective of the European debt crisis at the level of the states that are part of this community. The focus is on countries such as Bulgaria and Romania, supporting at the same time two main aspects of interest, namely:

Debt levels of the member states of the European Union, for the last decade;

Private debt vs public debt and the major challenges in managing them.

External debt, both governmental and private, is analyzed, especially after the financial and economic crisis that started in 2007 and the European debt crisis in 2010.

In fact, the economy of the European community and the euro zone has recovered since then and there is a concern about the emergence of a new debt crisis, at the level of the mentioned community, with an emphasis on these two member countries, since 2007.

The results of the study show that Romania is a country with low levels of debt, both governmental and of the private sector, which expands opportunities for economic growth and decreases vulnerability to external environmental changes. As for Bulgaria, the trend in recent years in both external public and private debt shows a decrease. Due to the low levels of public debt and the currency board arrangement and foreign reserves to maintain it, the country has sufficient buffers in the event of an increase in economic risks or a new crisis. Another study, *Analysis of the dynamics and structure of Romanian public debt In the period 2007-2017* (Călinică, R. M., 2019) analyze the structure, causes and ways of financing the public debt in general, but also its evolution, size and management methods in Romania as a member state of the European Union.

In the situation where the main needs of the society cannot be financed from the resources attracted in the state budget, i.e. the available financial resources are exceeded, the state through the competent bodies requests a crediting solution, i.e. external resources, i.e. public loans. Currently, the public debt it is a common phenomenon in the economies of different countries, but its share differs from one country to another. The problems on the international financial markets, triggered in 2007 in the USA, intensified in 2008, and the effects of these events were felt in all countries, including Romania. The results of the analysis show that the level of public debt has continuously increased in Romania, and from a structural point of view, external public debt had the largest share. If the revenues of the state budget are exceeded by the budget expenses, loans are used to balance it, thus increasing the public debt. But the real challenge lies in good management, which must aim to maintain an acceptable medium and long-term level of risk and ensure the resources to pay the debt service, at the lowest possible cost. As it has been shown, the loans that make up the public debt are contracted to finance the budget deficit, strengthen the foreign exchange reserve, make investments or maintain the balance of payments, but its level must increase in a controlled manner, without exceeding the legal level or limit, avoiding increases explosive through measures adapted/adaptable to new market requirements.

The Study: *On The relationship between economic growth and government debt for Bulgaria. Test of The Reinhart-Rogoff Hypothesis* (Yu HSING, 2020), finds that the tipping point in terms of the public debt ratio for Bulgaria is estimated to be approx. 45.26%, which suggests that an increase in the debt ratio above these mentioned levels will cause the real GDP growth rate to decrease. Practically this turning point for Bulgaria is much lower than the one proposed by Reinhart and Rogoff, i.e. 90%. In other words, the Reinhart-Rogoff hypothesis does not apply to the country in question. Bulgaria has shown a downward trend in the long-term public debt ratio, from approx. 79.4% in 1999 to approx. 14.08% in 2010. Even during the global crisis, debt rates remained low, at approx. 14.7% in 2008 and approx. 14.5% in 2009. After the end of the crisis or rather their effects, paradoxically, the public debt of Bulgaria, in 2016, indicated a value of approx. 27.3%, but the Bulgarian government, through concrete measures, managed to stabilize and even reduce the level, so that in 2019, the debt level was below the threshold of 20% of GDP, according to the study. The results of the study show, among other things, that the growth rate of GDP real depends on the employment growth rate, the ratio of investment spending to nominal GDP and the public debt ratio. In other news, the results also show that the

turning point is estimated at 45.26%. The growth rate and the debt ratio have a positive relationship, when the debt ratio is up to the mentioned threshold, and if this threshold is exceeded, the relationship becomes a negative one. The public debt rate in 2019 was below 20% (19.15%, according to the study), which indicates that there would be room for the Bulgarian government to engage in the so-called fiscal expansion, with the risk of increasing slightly, the debt rate, but it can further stimulate its economy, which is experiencing - more of a stagnation - due to the pandemic crisis at European and global level.

The paper: Public debt - Sustainability In E.U. (Scarlat-Mihai, C., F. 2022) analyzes the issue of public debt sustainability, also due to the effects of the COVID pandemic, which caused this level to increase significantly and even worryingly for most states of the European community. Practically, the central point of this work is the analysis of the public debt of the European Union, the influencing factors and its sustainability, at the same time, the way in which economic growth and the budget deficit influence the public debt was taken into account. A multifactorial regression model based on panel data was used, and the result indicates that there is a valid relationship between these variables. According to the same results, there is an inversely proportional relationship between economic growth and public debt and a direct, even significant relationship between the budget deficit and public debt. It was also confirmed that there is a strong relationship between the achievement of budgetary sustainability (measured by the budget deficit) and the sustainability of the public debt (measured by the public debt at the level of the European Union countries) and that the achievement of any of these cannot be achieved independently.

The government deficit management in Greece, Bulgaria and Romania (Letitia, M., Brătulescu, A, 2022), studies the factors that lead to the budget imbalance and the impact of the public deficit, public debt and gross fixed capital formation on economic growth. A special attention is paid both to the relationship between economic growth and the public deficit, but also to the fiscal behavior adopted by Greece, Bulgaria and Romania to face the challenges generated by the crisis that started in 2008 and the COVID 19 pandemic, which broke out at the European level in March 2020.

The result reveals a strong, positive correlation between deficit and economic growth only in the case of Bulgaria, while for the other two countries, whose deficit was much higher throughout the time period, the impact is not so significant. However, governments strengthened gross debt and gross fixed capital formation, which proved to be relevant influencing factors for economic growth in all three cases analyzed.

Another study, with a well-defined future perspective, specifically refers to Bulgaria: Bulgaria and possible euro introduction (Dimitrios K. Dapontas, 2022). It presents the economic history of the analyzed country, as a candidate country for joining the euro zone. Difficulties have been overcome under the bond scheme, at the Deutsche Mark since 1997. Accession to the European Union in 2007, fiscal health and participation in ERM II from 2020 have further encouraged the country's plans to join the euro in 2024, despite the mistrust that exists among the members of the community, divided in opinion fueled, in this period, by a global tension.

According to the Maastricht Treaty, joining the euro consists of five requirements to ensure that a new member state will not have a negative impact on price stability, along with



criteria to limit the deficit and ensure exchange rate stability for a term before entering the UEM.

New members are required to join Euro and must meet the following criteria:

Inflation (HICP) at the 12-month average rate, as an unweighted average of the three EU member states with the lowest HICP inflation plus 1.5 average points.

In 2021, HICP inflation for Bulgaria was 6.6%.

The budget deficit cannot exceed 3% at the end of the previous year or the following two years. In other words, the deficit must reach a maximum of 3 -3.5%.

Government debt/GDP ratio, if the gross nominal public debt compared to GDP at market prices cannot exceed 60% at the end of the previous fiscal year or if the limit has been exceeded, the state must guarantee that an annual reduction of at least 5% until the ratio reaches the target of 60%.

Exchange stability on the requesting country is ensured by the peg to the euro for at least two years without turbulence and participation in ERM II. Bulgaria will complete the two-year period in April 2022.

Long-term interest rates (10 years) as an average return for the past year should not exceed 2% than the unweighted average of the 3 countries with the lowest HICP inflation. This rate cannot be weighted if the country does not have full access to funding in the financial lending markets. Countries considered for long-term rates for 2021 are Finland (0), Portugal (0.39%), Malta (0.69%), respectively, averaging 0.36% when Bulgaria had a rate of 0.44%.

According to the results of the study, Bulgaria is one of the healthiest countries in the European Union. It has the lowest debt/GDP ratio; the government budget deficit is under control and corruption rates have fallen significantly. The major concerns are related to the current global trend of rising inflation and its effect on the Bulgarian economy. In other words, the government in Sofia is certain to join the ERM in 2024 in accordance with the proposed requirements.

Within the Competitiveness and sustainable development Conference, one of the topics of interest, with applicability at the Romanian level, is presented, namely: Some directions of action in the management of public debt to minimize the risks of a debt crisis in Romania (Milea, C. 2022). Thus, several directions of action in the management of public debt are highlighted to minimize the risks of a debt crisis in Romania, in the domestic and international context.

The analysis considered that the evolution of Romania's total public debt in the period 2015 - 2019 is positive, in the sense of improving sustainability, given that there is a tendency to increase domestic loans (thus reducing the dependence on foreign creditors), the share of debt in foreign currency decreases in the total public debt (reducing the currency risk), the ratio of public debt to GDP is slightly reduced, the importance of medium and long-term debt increases, short-term debt decreases proportionally.

The outbreak of the COVID 19 pandemic required recourse to loans, so the public debt increased against the background of its effects, and the indicators showed significant fluctuations, which required rapid measures and increased vigilance by the authorities, imposing measures to prevent a new, possible, debt crises. There was not, nor is there a universally valid rule for determining a "safe" level of debt. Each country must establish its maximum level based on its own macroeconomic and financial experience, taking into account, in particular, the degree of affordability of the economy.

At the same time, the study reinforces the idea that membership of a monetary union makes a member country more vulnerable to a debt crisis, due to the fact that foreign investors can easily leave the loaned country. Furthermore, it is almost impossible for the country concerned to react through monetary policy. Avoiding a crisis depends entirely on fiscal discipline when a country abandons its autonomous monetary policy.

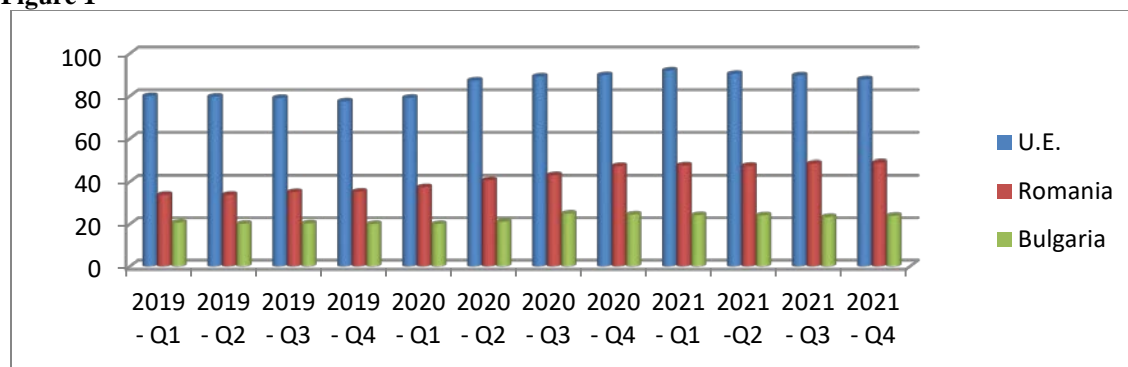
In other words, each state is responsible for the way it manages the situations that have arisen, in a delicate economic context, ground by socio-economic turmoil; of armed conflict, which does not have a well-defined time horizon and which can give birth to us crisis situations, even of a military nature; by the COVID 19 pandemic, which admittedly does not have or does not have the same "power" anymore, but maybe it is for the moment, due to the nature of the expenses that must be managed as well as possible; of a possible recession, unwanted, but which must be taken into account and perhaps no one is thinking - of a possible new crisis of emigrants, not only at the level of Romania or Bulgaria, but at the level of the entire European community.

The analysis of the studies shows that at the level of the member states of the European Union, which joined in 2007, the economic situation is not a worrying one, although, in some places, things are not going as they should, thus even the least significant developments are surprised, of the macroeconomic indicators, which, as is known, reflect the situation and the economic potential at a given moment.

In other words, the debt level falls within the limits imposed by the Maastricht Treaty, the funds available from financial institutions at European and even global level should create favorable conditions for economic development and better management of the situation/situations existing, and the strategies considered, must enjoy a high level of flexibility, which allows optimal management, on the fly, of some situations, even momentary crises.

Thus, the level of public debt in relation to GDP for the analyzed countries, in the last 3 (three) years, is presented in the following table:

**Figure 1**



Source: Eurostat

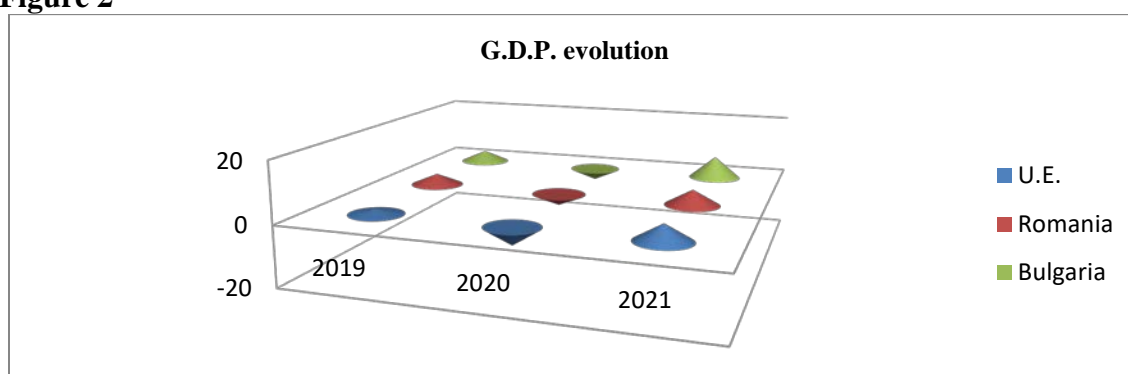
As the data shows, the way of managing the contracted loans falls within certain acceptable limits, although these countries, and especially Romania, must pay more attention to the way of allocating those funds, in those sectors of activity vital, in order to be able to talk about sustainable economic growth in the medium and long term, based on economic policies to support and encourage investors and implicitly investments. The various studies

present thresholds that must be respected, referring, in particular, to those countries - such as Romania and Bulgaria - whose economy is not so well developed, compared to countries such as France, Germany, the Netherlands, etc. In other words, these thresholds present values that fall within the range of 53 - 55% of GDP in order to be able to speak of sustainable development and without overburdening the economy, whose degree of affordability must be very well managed.

The existing balance between the two states is also given by the evolution of other macroeconomic indicators, with pronounced impact. In other words, consumption and investment in recent years have made an important contribution to the development of countries.

As for the evolution of GDP, for example, as a macroeconomic indicator that reflects the state of the economy, the situation is presented according to the table:

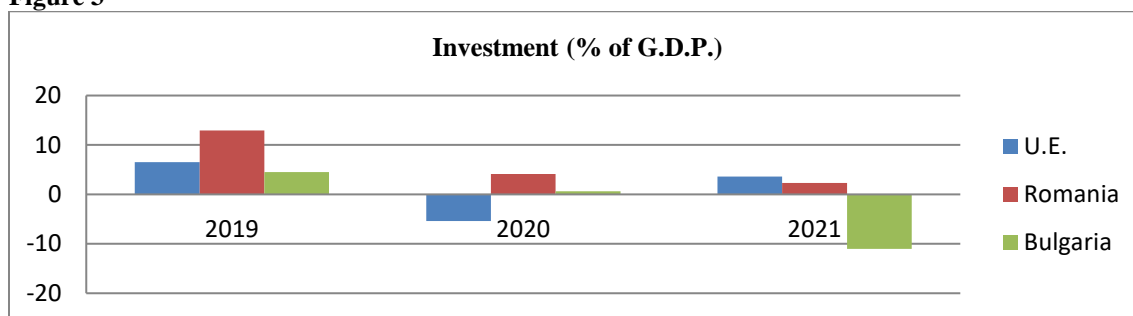
**Figure 2**



Source: data.OECD

Another relevant indicator that reflects, on the one hand, the evolution of the economy, and on the other, the dynamics of the public debt, is represented by investments, which according to table no. 3, regarding Romania and Bulgaria as member states of the European Union and in relation to it, the situation is as follows:

**Figure 3**

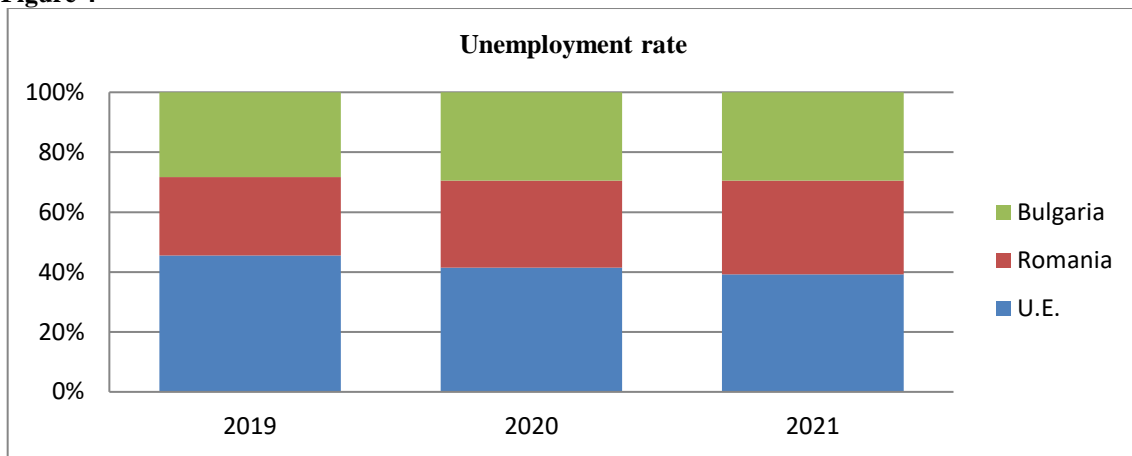


Source: data.OECD

According to the table, it can be seen that in the period leading up to the pandemic crisis, Romania benefited from massive investments, at a level even higher than the European Union average, and this materialized in the construction of administrative buildings / offices and homes, thus facilitating the obtaining of income, it is true at a lower level, but

constantly, during the analyzed period. Investments create an environment conducive to development, but they must be supported by firm policies, based on medium and long-term strategies, which on the one hand offer a certain stability to investors, and on the other hand support, through fiscal-budgetary policies that allows the depreciation of investments of any kind and the generation of a certain profit, which can also be reinvested. Another relevant indicator that reflects the dynamics of the public debt is represented by unemployment. The salary theory, according to the yield criterion, states that it is more advantageous for companies, respectively multinational companies, to pay high / high salaries, so that work is a clearly superior alternative to dismissal and at the same time, it will further improve the quality of the results. And in this case, there is a certain state of equilibrium, regarding the countries analyzed, and these data are presented in the following table:

**Figure 4**

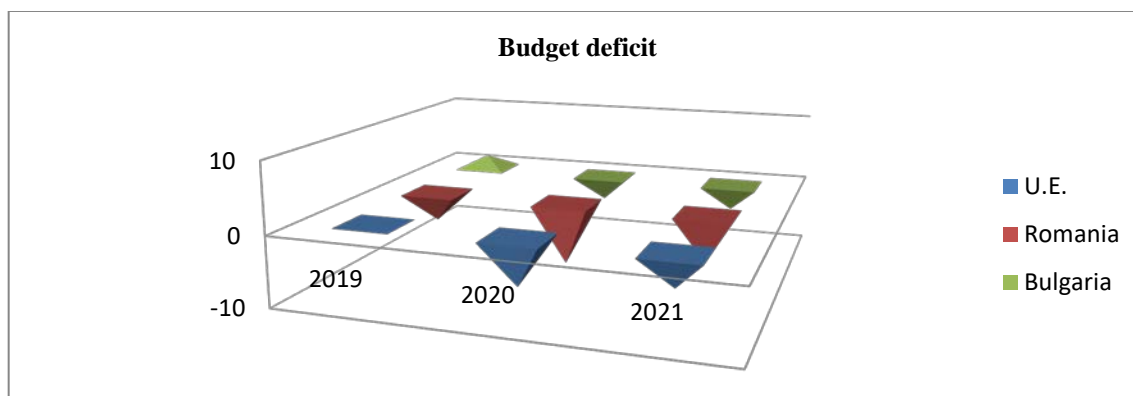


Source: data.worldbank.org

Macroeconomic indicator that largely explains the evolution of the economy with implications for the sustainable development of the analyzed states, is represented by the budget deficit that occurs when a government's expenses exceed receipts.

A budget deficit is of quality only when at least two conditions are met: On the one hand the deficit is fully reflected in investment expenditure and, in particular, in infrastructure development, and on the other hand it is covered with resources financial security, in order not to resort to inflationary monetary issues. I think that it has suffered the most, as a fluctuation, as a result of the socio-economic and political events of recent years, and it creates the premises for future perspectives that place Romania's neighbor at a higher level. The evolution of this indicator is presented in the following table:

**Figure 5**



Source: Eurostat

With regard to this indicator of overwhelming importance, in order to limit as much as possible the harmful effects of the pandemic collaborated with those of the armed conflict and to be able to continue talking about economic development at the community level, the revision of the fiscal rules was analyzed, so that the provisions of the Stability and Growth Pact, which limit, among other things, the deficit below the threshold of 3% of GDP, and the public debt below 60% of GDP. were suspended when the COVID 19 pandemic began to give countries and their governments a so-called leeway in the fight against the SARS CoV2 virus.

The first results for 2021 and the first semester of 2022 indicate that both the Bulgarian and Romanian economies have returned to growth, so that budget rules could be reintroduced starting this year.

On another note, it should be noted that they will take into account the level of debt already accumulated, the need for sustained investments not only in infrastructure but also in other vital activity sectors, and last but not least, the need for "green energy" in the fight against climate change, why not recognize an aspect, a branch of national interest - if we refer to Romania and P.N.R.R.

In the current existing geopolitical context, social, budgetary and any other expenses should be reviewed, being at the same time consistent with the events that are happening and with the existing difficulties, generated by the Russian-Ukrainian conflict and the need to support the economy as a whole, based on a budget very well anchored in a reality, rather relative than one that generates stability.

In the sense of what has been presented, which has as its starting point the management of public expenses, in order not to affect the level of public debt even more, it must be stated that in the last 10 - 15 years, the economy of the two states has kept the same trend, perhaps with different objectives - only for the time being, which had as their main objective economic growth, as a pillar of sustainable development in the medium and long term, with additional allocations for research and especially innovation. These are considered, in the current political-economic environment, factors and at the same time, assets that, depending on how they will be "used/supported", can represent a concrete way of positive evolution in terms of the economy of the analyzed states.

The economic crisis, characterized by an acute lack of liquidity, as is known, affected both economies quite seriously, and their recovery required a concerted effort on the part of political forces, supported by researchers / scientists and last but not least of funds,

refundable / non-refundable from international institutions / bodies, which also provided specialized assistance, showing leniency, flexibility and an accuracy of the data that presented/showed the best way to overcome the given situation. It is true that there were also shortcomings, but precisely these contributed or rather represented points of differentiation in the development of one country, to the detriment of the other, especially through the way in which the authorities knew how to manage the shortcomings that appeared (for example, the period 2016 - 2018 was interpreted somewhat differently by the governments of the two states, for Romania it represented a period in which the premises were negotiated and created for growth, even based on consumption, while for Bulgaria, if there was economic growth, it was also sprinkled with some shortcomings that had to be corrected over time, with certain repercussions, which otherwise did not, in the end, have such a negative effect on the economy).

If one considers The Annual Report of the Institute for Management and Development /IMD/ from Lausanne /Switzerland, published in May 2015 - at approx. 3 years after the end or at least the limitation of the effects of the financial crisis - it can be said with certainty that Romania was in 47th place, meritorious from the point of view of the competitiveness of the economy, ahead of countries like Bulgaria (55), for example, Hungary (48), Slovenia (49), Greece (50), but overtaken by Slovakia, 46th place, worldwide. This detail/survey shows that Romania has succeeded, it is true with some setbacks and even compromises, to get out of this vortex, showing a real perspective of development, which by the way continued until the outbreak of the COVID 19 pandemic.

Another noted aspect relates to the management of oil products, extraction, distribution, redistribution to the population and companies, which, this time, places Bulgaria ahead of its neighbor (Romania). Regarding derivative products, a certain "equality" can be found, which is reflected in the economy and regarding the evolution of the most important macroeconomic indicators analyzed. Moreover, these, oil, gas, respectively energy, represent, in the current environment, ground by pandemic, conflicts and war, such a sensitive element that a better responsible management can be a destabilizing element - in terms of economic development, which will hardly be able to be rebuilt, to support a growth, be it linear with benefits for companies that will fall again later, but also sensitively on the incomes of the population.

In another way of thinking, culinary/gastronomical, if the economic evolution was analyzed, it can be stated, taking into account the experiences in the field, that our country won and continues to hold supremacy, in relation to Bulgaria, even approaching - still keeping the proportions of another state, with which it borders, namely Hungary. The latter is quite close to the USA. which, as is known, is in the top 5, worldwide, from this analyzed point of view, which after all represents the "salt and pepper" of an economy that is also characterized by a diversity, which must be exploited, placed in the value on a much more representative level.

According to the data and at the same time, the program launched - IncubatorX SME, in 2022, for the period March - November, by B.E.R.D. and Ascendis (training company) I.M.M./ companies, with potential from Romania and neighboring countries interacted, on the one hand, with consultants, whose experience left its mark on the development of the companies they represent, and on the other hand, with successful entrepreneurs, whose business plans, well and realistically penciled, gave promising results - this experience

being beneficial, useful and at the same time constructive, regarding the transformation of ideas into innovative products and services for companies and their representatives.

This approach aimed, among other things, at providing the 3 most important conditions for the creation of new products/services, and these refer to ideation, inspiration and the incubation of ideas. The starting point, in launching this program, was the fact that approx. 0.1 - 0.2 % of small and medium-sized companies in Romania and neighboring countries - in the analyzed case, Bulgaria, create truly new products that enjoy a high degree of pure innovation; because in the end this is the key to the development of any business. Practically, out of the 82 registered companies from countries such as Romania, Croatia, Bulgaria and Serbia - which have also applied, in this field, innovation - 48 of them have been selected to participate, actively, and only 6 have reached the "final" of the program and of these (six) only 3 actually launched new products on the market.

In other words, such programs are useful / essential for the development of an environment, even an entrepreneurial system, which can generate a high added value, capable of providing real support to an economy constrained by various disturbances, sometimes unable to provide viable development solutions on medium and long term. Looking at it from another point of view, innovation, as a solution and pillar of growth, needs support from investors and significant allocations from state budgets to give tangible results both for I.M.M. - urs, with their contribution, as well as for the large supply chains of raw materials and even finished products.

In general, the economies of the European Union states have been constrained, forced to take certain non-compliant decisions and measures, in the current geopolitical context, so that the assumption of responsibility, regarding the decisions taken by political factors becomes a defining element, which gives a even greater weight to the income and expenditure budget that must be drawn up and assumed, much more realistic, connected to everything that happens, able to manage any situation that arises and without significantly affecting the activity of profitable businesses/companies - which in the end also ensures the population's income.

As found in each macroeconomic indicator (inflation, deficit, unemployment, etc.), each factor (deficit financing and public debt) has its own contribution to the sustainable development of a state, so each government is responsible for the policies and measures implemented, because they constitute the basic element/elements and in terms of harmonizing them with the strategies proposed to be implemented at the level of the entire European community, taking into account the financial and socio-political difficulties at the European and world level.

### **Methodology and data used**

The methodological framework aims to use an analysis tool, namely V.A.R. (Vector Autoregression Model), in order to capture the evolution of the variables and their effects on the economies of the analyzed countries, namely: Romania and Bulgaria respectively. The data used have a quarterly frequency, for the reference period 2009 - 2021 and concern the evolutions analyzed both from an economic point of view, as well as their development as member states of the European Union since 2007. In the analysis of the V.A.R model, quarterly data of the public debt, GDP, respectively investments were used, for the

mentioned reference period. The data source for public debt is EUROSTAT, and for GDP respectively investment is O.E.C.D. and includes 153 observations.

### The case of ROMANIA

After the estimation of the VAR model, it is observed that there is an inverse (-) effect in the evolution of GDP starting from the 2nd trimester. Therefore, a change in GDP by 1 (one) percentage point will attract, over time, a change in the opposite direction, on the one hand, and on the other hand, public debt negatively influences GDP, starting with 1 quarter and positive GDP starting with the 2nd trimester, having the same trend. As for the investments, they have a positive impact on the evolution of the public debt even in the case of both regions, a fact proven by the economic reality. The more that is invested, the more the public debt increases.

$$GDP = C(1,1)*GDP(-1) + C(1,2)*GDP(-2) + C(1,3)* INVESTMENTS(-1)+ C(1,4)*INVESTMENTS(-2) + C(1,5)* PUBLIC\_DEBT(-1)+C(1,6)*PUBLIC\_DEBT(-2) + C(1,7)$$

$$GDP = - 0.33228637312*GDP(-1) - 0.41226140491 *GDP(-2) + 0.13769207420*INVESTMENTS(-1) + 0.00892839853*INVESTMENTS(-2) - 0.15481642306*PUBLIC\_DEBT(-1) + 0.150661358261*PUBLIC\_DEBT(-2) + 0.0133282184235$$

From another point of view, regarding the results of the estimation, it can be said that: GDP negatively influences the public debt, but with a lag of 1-2 quarters and at the same time, the public debt positively influences the public debt, but also with a lag of 1 quarter and negatively, but with a lag of 1-2 quarters.

Investments, according to the equation below, have a negative impact on the public debt, an effect contrary to that expected by the economic reality, a fact explained by the inefficient management of resources in order to obtain sustainable economic performances.

$$PUBLIC\_DEBT = C(3,1)*GDP(-1) + C(3,2)*GDP(-2) + C(3,3)*INVESTMENTS(-1) + C(3,4)*INVESTMENTS(-2) + C(3,5)*PUBLIC\_DEBT(-1) + C(3,6)*PUBLIC\_DEBT(-2) + C(3,7)$$

$$PUBLIC\_DEBT = - 0.0757091936232*GDP(-1)- 0.370567225524*GDP(-2) - 0.0344477879683*INVESTMENTS(-1) - 0.0530324439845*INVESTMENTS(-2) + 1.04491738776*PUBLIC\_DEBT(-1) - 0.0343323693744*PUBLIC\_DEBT(-2) + 0.00451255599311$$

In other words, it can also be stated that: GDP negatively influences investments, but with a delay of 1-2 quarters, and this is also due to a less efficient management of resources.

At the same time, it is found that investments have an inertia effect in their evolution, in the case of both lags and last but not least, it is shown that public debt negatively influences investments, with a delay of 1 quarter and also a positive influence is observed, but with a delay of 2 quarters, a fact validated by the economic reality, in the case of both situations, because, on the one hand, investments can attract an increase in the debt, but on the other hand, an unsustainable investment can be the cause of the growing public debt, which is not necessarily desirable, for a prosperous economy, according to the following equation:

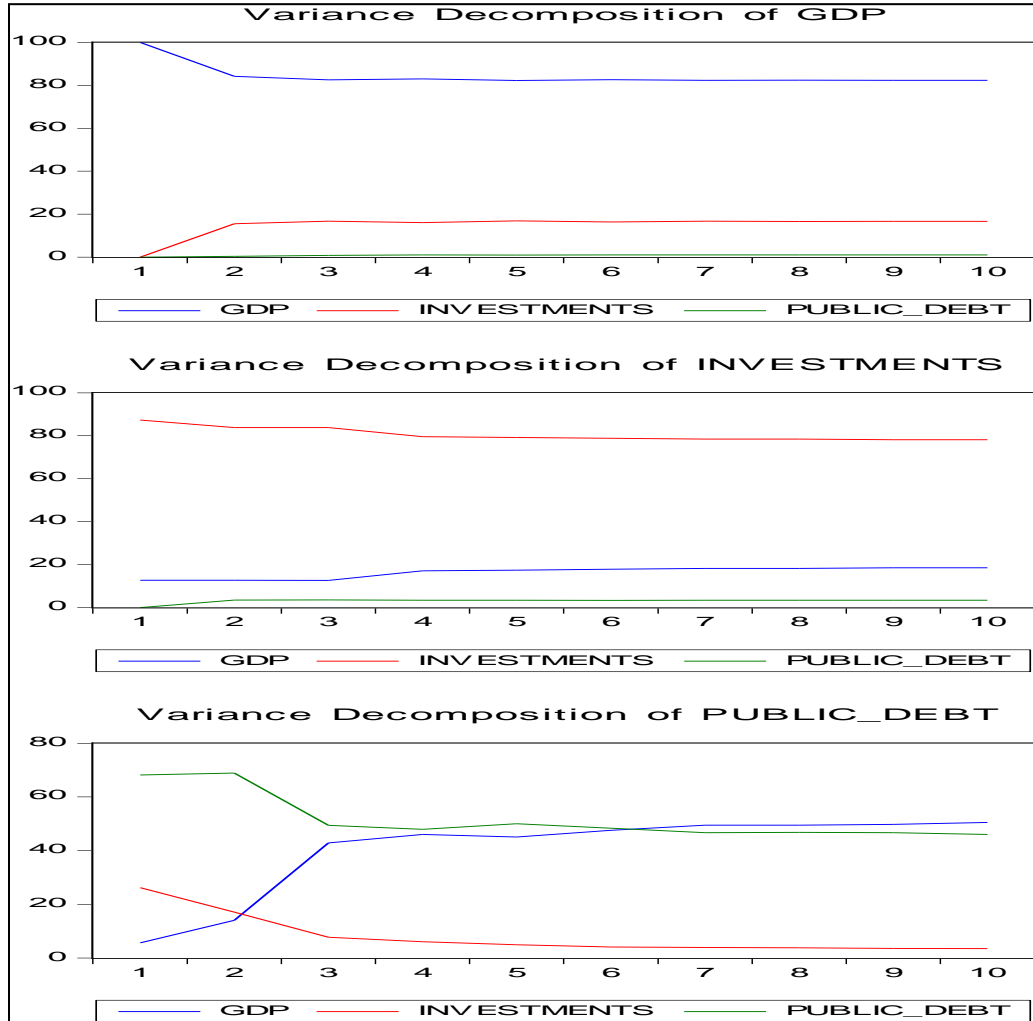
$$INVESTMENTS = C(2,1)*GDP(-1) + C(2,2)*GDP(-2) + C(2,3)*INVESTMENTS(-1) + C(2,4)*INVESTMENTS(-2) + C(2,5)*PUBLIC\_DEBT(-1) + C(2,6)*PUBLIC\_DEBT(-2) + C(2,7)$$



$$\begin{aligned} \text{INVESTMENTS} = & - 0.478376915189 * \text{GDP}(-1) - 0.38850744445 * \text{GDP}(-2) - \\ & 0.137250999381 * \text{INVESTMENTS}(-1) + 0.0585078418731 * \text{INVESTMENTS}(-2) - \\ & 1.70694217027 * \text{PUBLIC\_DEBT}(-1) + 1.800292337 * \text{PUBLIC\_DEBT}(-2) - 0.0156143760096 \end{aligned}$$

In other words, a change in the investment indicator will be effectively reflected in its evolution and dynamics, only after 1 - 2 quarters.

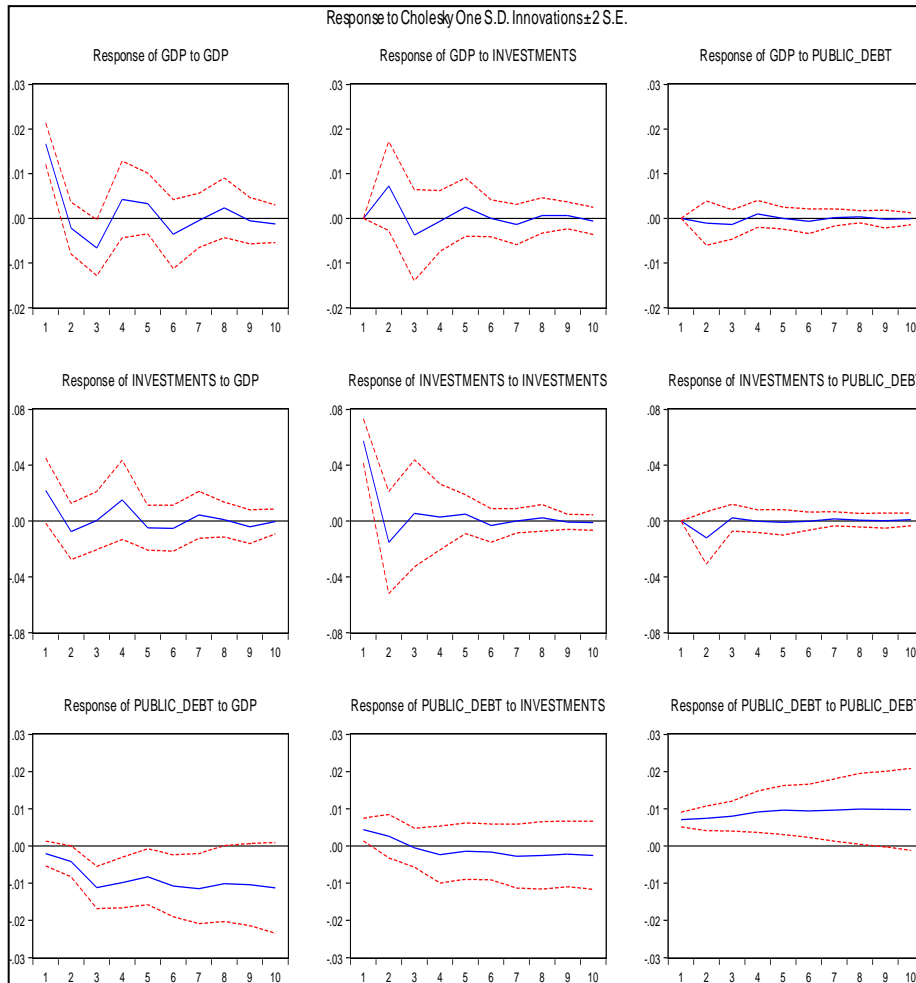
Figure 6 Variance decomposition (Romania)



Source: author's calculations, with Eviews software

The analysis of the "variance decomposition" indicates that, on the one hand, the public debt variance is explained in proportion to approx. 15% of the GDP variation in the first two quarters, and starting from the third quarter the proportion increases to 40%. On the other hand, the variation of the public debt is explained by its own variation in the proportion of approx. 75% in the first two quarters and starting from the third quarter the proportion drops to 55%. Regarding investments, their evolution influences the public debt, in proportion to approx. 25-15% in the first 2-3 quarters, the percentage decreasing considerably, with the passage of time.

**Figure 7 Impulse response functions**



Source: author's calculations, with Eviews software

According to the graphs above, the following can be concluded:

There is an inertia effect in the evolution of GDP (first line);

There is an intensification of investments when the GDP increases, this is also due to the allocation of additional funds, when the economic evolution allows and it is desired, even in linear conditions, to have an announced continuity in this regard;

An adverse effect is observed in terms of the evolution of the public debt when changing the GDP. In other words, an increase in GDP leads to a decrease in public debt, a fact also validated in economic reality, but this time too the period did not have the desired continuity, but rather was a fluctuation.

### The case of BULGARIA

Following the estimation of the VAR model above, it can be stated that, on the one hand, there is an inertia effect in the evolution of GDP starting from the 2nd quarter. Therefore, a change in the GDP by 1 percentage point will attract, in time, a change in the same direction, and on the other hand, the public debt positively influences the GDP, starting

with the 1st quarter (having same trend) and negative GDP - starting with the 2nd quarter, continuing its trend.

Moreover, it can be said that investments also have a positive impact on the evolution of the public debt, starting with the first period, and a negative one, with a delay of 2 lags.

Thus, the more one invests, two situations are taken into account in the economic reality:

- Public debt increases, but loans are used constructively;
- If the amortization period is fulfilled, the long-term effect on the economy also becomes positive.

$$\text{GDP} = C(1,1)*\text{GDP}(-1) + C(1,2)*\text{GDP}(-2) + C(1,3)*\text{INVESTMENTS}(-1) + C(1,4)*\text{INVESTMENTS}(-2) + C(1,5)*\text{PUBLIC\_DEBT}(-1) + C(1,6)*\text{PUBLIC\_DEBT}(-2) + C(1,7)$$

$$\text{GDP} = 0.812064389204*\text{GDP}(-1) + 0.285266671619*\text{GDP}(-2) + 0.143350495963*\text{INVESTMENTS}(-1) - 0.111351411139*\text{INVESTMENTS}(-2) + 0.251631122016*\text{PUBLIC\_DEBT}(-1) - 0.229437039096*\text{PUBLIC\_DEBT}(-2) - 0.0955689822801$$

On another note, the following variants should also be emphasized, which according to the results can be interpreted as follows: GDP negatively influences the public debt, in the first quarter, and positively with 2 quarters; and public debt positively influences public debt, but still with a lag of 1 quarter and negatively, but with two quarters.

At the same time, the investments have a negative impact, on the public debt, only in the first quarter, an effect contrary to that expected by the economic reality, a fact explained by the inefficient management of resources in order to obtain sustainable and positive economic performances, starting with the second quarter, according to the following equation:

$$\text{PUBLIC\_DEBT} = C(3,1)*\text{GDP}(-1) + C(3,2)*\text{GDP}(-2) + C(3,3)*\text{INVESTMENTS}(-1) + C(3,4)*\text{INVESTMENTS}(-2) + C(3,5)*\text{PUBLIC\_DEBT}(-1) + C(3,6)*\text{PUBLIC\_DEBT}(-2) + C(3,7)$$

$$\text{PUBLIC\_DEBT} = - 0.538931094403*\text{GDP}(-1) + 0.529442670262*\text{GDP}(-2) - 0.168585557182*\text{INVESTMENTS}(-1) + 0.202319026485*\text{INVESTMENTS}(-2) + 1.3734615776*\text{PUBLIC\_DEBT}(-1) - 0.417145233034*\text{PUBLIC\_DEBT}(-2) + 0.024853994093$$

According to another equation, reproduced below, it is found, on the one hand, that GDP negatively influences the public debt, in the first quarter, and positively with 2 quarters, and on the other hand, investments have an inertia effect in their evolution, in the case of both lags. As for the public debt, it positively influences investments with a delay of 1 quarter and at the same time, a negative influence is also observed, but with a delay of 2 quarters.

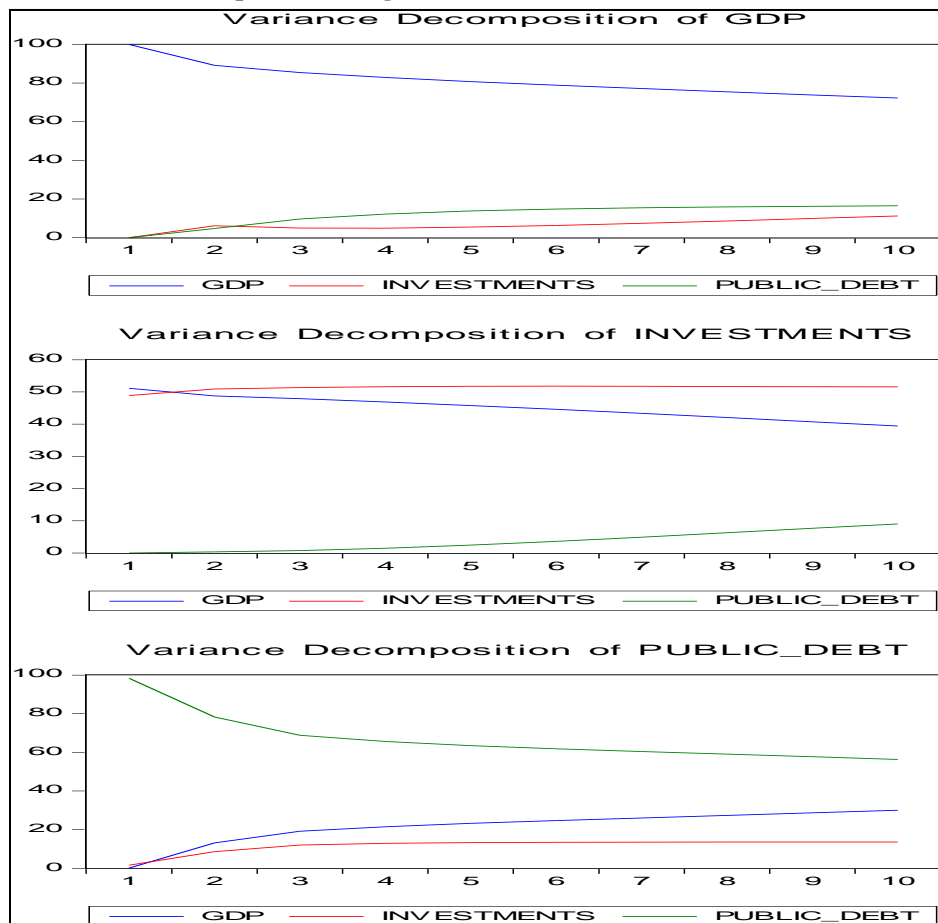
The economic reality of recent years, even decades, surprises by the way the various analyzed indicators are compared. In other words, this proves, on the one hand, that investments can attract an increase in debt, but on the other hand, a less sustainable investment can be the cause of a decreasing public debt, which is not necessarily desirable, from the point of view of the investments made, for a prosperous economy. These, the investments must not necessarily cover the "rates" on the contracted loans, but rather facilitate economic development so that the debt and implicitly the maturities no longer constitute a problem of national or even regional interest.

$$\text{INVESTMENTS} = C(2,1)*\text{GDP}(-1) + C(2,2)*\text{GDP}(-2) + C(2,3)*\text{INVESTMENTS}(-1) + C(2,4)*\text{INVESTMENTS}(-2) + C(2,5)*\text{PUBLIC\_DEBT}(-1) + C(2,6)*\text{PUBLIC\_DEBT}(-2) + C(2,7)$$

$$\begin{aligned} \text{INVESTMENTS} = & -0.37045986999*\text{GDP}(-1) + 0.383644474994*\text{GDP}(-2) + \\ & 0.780981021449*\text{INVESTMENTS}(-1) + 0.31105673060*\text{INVESTMENTS}(-2) + \\ & 0.221206362258*\text{PUBLIC\_DEBT}(-1) - 0.0529467352726*\text{PUBLIC\_DEBT}(-2) - 0.0542782932593 \end{aligned}$$

In other words, a change in the investment indicator will be effectively reflected in its evolution and dynamics, only after 1 - 2 quarters.

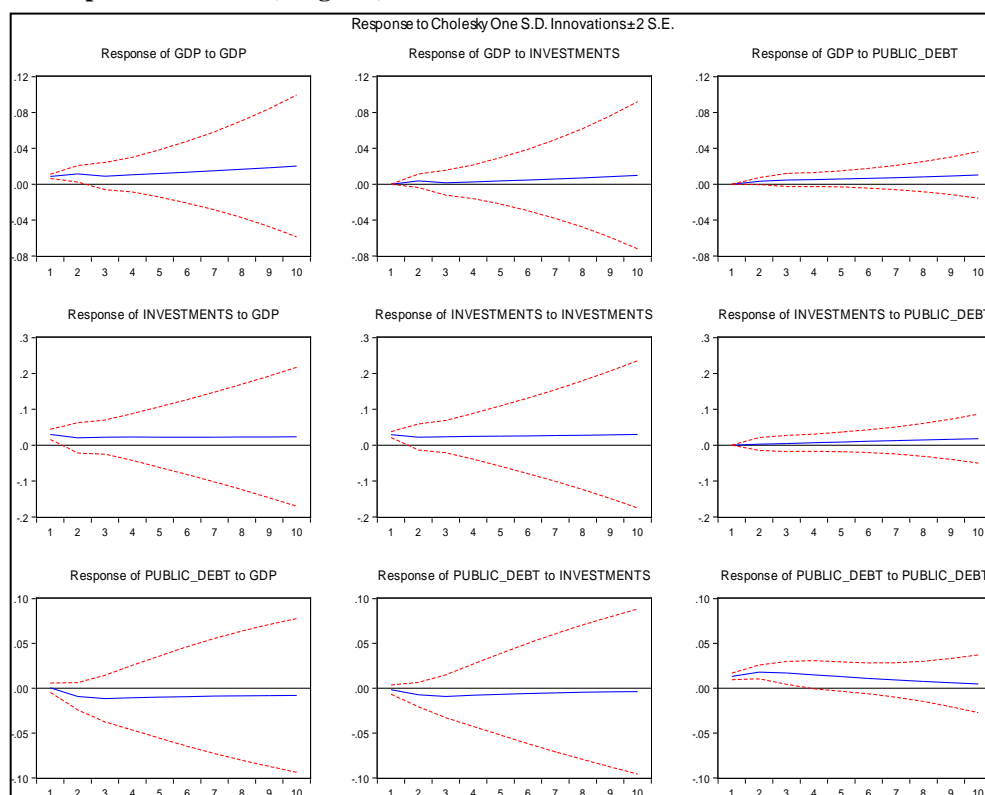
Figure 8 Variance decomposition (Bulgaria)



Source: author's calculations, with Eviewssoftware

The analysis of the "variance decomposition" indicates that, on the one hand, the public debt variance is explained in proportion to approx. 20% of the GDP variation in the first two quarters, and starting from the third quarter the proportion increases to 35-40%. On the other hand, the variation of the public debt is explained by its own variation in the proportion of approx. 80% in the first two quarters, and starting from the third quarter the proportion drops to 55%. Regarding investments, their evolution influences the public debt, in a proportion of approximately 15% in the first 3 quarters, the trend being maintained until the end of the analyzed period.

**Figure 9 Impulse response functions (Bulgaria)**



Source: author`s calculations, with Eviews software

According to the graphs above, the following can be concluded:

There is an effect of inertia in the evolution of GDP and public debt, a fact reflected, especially by the way politics and the governments manage the funds, maturities and revenues obtained at the national level, with a special emphasis on their redistribution in the territory.

There is a constant trend regarding the evolution of investments, which is pleasing, on the one hand, and on the other hand, due to the dynamics of events, they (investments) are unpredictable, and investors, more recently, are looking for profit, not equally significant perhaps, but certainly in the short and medium term.

There is an opposite effect regarding the evolution of the public debt when changing the GDP. Thus, an increase in the GDP determines the decrease of the public debt, as well as a boost in investments, a fact also validated in the economic reality, which is wanted/wanted to be carried out over a longer period of time.

The period under analysis was marked by events with a particular impact on economic development as a whole, whether we are talking about the acute lack of liquidity and implicitly the global financial crisis (2008 - 2012), or whether we are referring to social events with a strong impact on economies that had recovered from the mentioned crisis; to the turbulence in terms of the policies and measures instituted in the period 2016 - 2018, the case of Bulgaria, whether we refer to the COVID 19 pandemic, the impact of which is still not fully known, but which made many victims among people of the age of III - a.

The strategies thought out, based on solid analyses, sought to mitigate, as much as possible, the impact of the events mentioned above. Investments were a defining element and the way these funds, attracted or granted by investors/financial institutions, were fruitful made the economy and then the incomes of the population not suffer even more.

It is true that they must be encouraged, so that on the one hand they lead to the development of infrastructure, technology, innovation, and on the other hand - taking into account the estimated amortization period - to generate additional income and even profit, whether it was reinvested or not. The way these measures were implemented was also reflected in the evolution of the macroeconomic indicators analyzed, used in estimates, forecasts that required/imposed updates and decisions taken, which most of the time turned out to be taken under huge pressure, if considers the periods 2008 - 2012, respectively 2020 - 2022.

### **Results and proposals**

The mediatized globalization, as a phenomenon, through its effects, should generate, among other things, a certain homogeneity of the measures, policies instituted at the regional and even community level. The political factor and the misunderstandings that followed led to the outbreak of a conflict that affects not only the economies of the countries under analysis, but also the other countries in Europe and even more. Moreover, it is considered that the measures regarding social, cultural and political cohesion should be received in the coming years, in order to generate much-needed stability in the area.

Also, its must be able to implement those directives aimed at good management of the funds that would come from specialized institutions, able to further encourage economic activity through diversification. Moreover, at the same time it is expected to increase the quality of the resulting products, which would make them much more competitive, on a dynamic European market - where a very important aspect , worthy of consideration concerns the allocation, with priority of funds intended for research and especially innovation.

Reimbursable / non-reimbursable funds intended for development, innovation, education / research, are allocated either through P.N.R.R., which must be implemented with priority, or through RePowerEu which refers to a problem that is as current as it is necessary - in all this amalgam of events - what concerns the field of energy; moreover, an area of interest for both manufacturing companies and the population.

In other words, the achievement of any proposed objectives takes into account the compliance and/or successful implementation of the following aspects of interest, at the level of the region and countries studied, as follows:

Rigorous management implementation in terms of managing and allocating available funds.

Development of mechanisms for supervision and control of these funds, originating from international institutions.

Reducing, as far as possible, the harmful effects generated by the fluctuation of macroeconomic indicators.

Measures, with a high degree of flexibility / adaptability, useful and so necessary to support the economic environment.

Decision-making transparency, at the level of institutions, of the state and even their depoliticization.

Priority support of research-innovation projects capable of producing long-term beneficial effects, both for companies and for the population.

Fruiting, to the maximum, of the agricultural potential, taking into account the supply difficulties, from the conflict zone.

Improving the way of communication/relationship with citizens etc.

## **Conclusions**

The reality in which the economic, socio-cultural, but also political activity is carried out, as could be observed, was not conducive to sustainable development and, in this sense, at the level of the European Union and implicitly of the analyzed countries, those measures were accepted, based on some analyzes developed by various specialists, which mitigated the unwanted effects of the events rather than generating viable solutions for growth, harmonious development in all its components. Thus, how all these ideas, plans and strategies will be implemented, with an applicability, not only in the short term, but in the medium and long term. It will make a difference in terms of drawing up future strategies for economic growth and development.

These aim, among other things, at the introduction of the single currency both at the level of Bulgaria (predicted for 2024) and at the level of Romania, the acceptance, by vote as a state/(s) members of the Schengen area, the reduction of the level of public debt - through those strategies / viable measures with a rather long-term vision. And not least, another condition is improving the outlook from the country rating point of view, which has a most direct effect on investors and their decisions to invest, especially in those vital sectors of the state, able of providing economic stability, for sustainable development. Of course, investments are very important, as the study in question shows, but the way they are capitalized can make the difference between an economy with real growth prospects and an economy that only knows how to cover, for the most part, its expenses. Thus, it is becoming more and more important how the government succeeds or will succeed in balancing the balance between revenues and expenses, on the one hand in order to no longer have a deficit greater than 3% of GDP, and on the other hand, for to make even better use of the opportunities that have arisen, also given by European funds, from the financial institutions.

All these considerations, which involve the main macroeconomic indicators analyzed, create a real perspective of growth, which is desired to be in the medium and long term, and in this environment, characterized by turmoil, conflicts and pandemics, the ability to adapt economies to situations becomes paramount. Invited, what compels, the decisive factors for decisions/measures that must be supported by much more rigorous analyses, based on an accuracy and stationarity of data, simultaneously with the assumption of decisions.

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## LEGAL PROBLEMATICS OF CREDIT SETTLEMENT IN INDONESIAN BANKING CRIME

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**Abstract:** *Based on Article 37D of the Law of the Republic of Indonesia Number 4 of 2023 Concerning the Development and Strengthening of the Financial Sector (UUPPSK), OJK can stop investigations into alleged tipibanks. The termination of the investigation is contrary to the terms of termination of the investigation as specified in Article 109 of the Criminal Procedure Code which states that a crime can only be stopped if there is insufficient evidence, the case is not a criminal case and is due to legal interests and Article 1 of the Criminal Code regarding the principle of legality. Tipibank termination conditions are; there is a request from the perpetrator of the suspected bank crime against which the OJK approves and the perpetrator pays all losses and costs incurred as a result of the banking crime. there is a request from the suspected perpetrator of bank fraud that is given to OJK and OJK accepts and approves the said application, whether or not there is settlement of losses arising from tipibank, the amount of the loss and the impact on the banking sector, banks, the interests of customers and/or society. Meanwhile, the investigation termination mechanism is; the application of the alleged perpetrator of the tipibank was approved by the OJK and the perpetrator of the alleged tipibank paid compensation. Some of the problems in solving the alleged bank crime by stopping the investigation include; The condition for terminating a tipibank investigation is contrary to the Criminal Procedure Code and the Criminal Code, the concept of resolving allegations of tipibank through termination of investigation is not in line with the principles of restorative justice and the concept of settlement out of court (mediation). Typical bank generalizations that can be resolved through termination of investigations can eliminate the function and purpose of law. Ambiguity regarding the meaning of violations and bank tipi in the UUPPSK and PP-UUPPSK can cause its own problems in its application.*

**Keywords:** *Credit, Banking, Investigation, Financial Sector, Indonesia.*

### **Introduction**

Banks are a risky business sector with legal risks and losses (Supaijo, 2010). Realizing this, the government through Bank Indonesia (BI), the Financial Services Authority (OJK) and other related institutions has made the banking industry a highly regulated business sector. In line with that, on January 12, 2023 the government has enacted Law of the Republic of Indonesia Number 4 of 2023 Concerning the Development and Strengthening of the Financial Sector (UUPPSK). The promulgation of the UUPPSK was intended to strengthen

the position and standing of banks in the country's economic system. In consideration of Government Regulation Number 5 of 2023 concerning Investigation of Criminal Acts in the Financial Services Sector (PP-UUPPSK) as an implementing regulation for the UUPPSK it is also stated that one of the main objectives of the UUPPSK is to support synergy between the Indonesian National Police and OJK in law enforcement in financial services sector. This is in line with the statement of the Committee on the Global Financial System which states that banks must be supported by regulations that are able to support banks for the dynamics of business and transactions that occur (Buch & Dages, 2018).

In general, the main business of a bank is collecting (money) and distributing it (credit) back to and from the community. It is hoped that the circulation of money from depositors to user customers (debtors) through these banks is expected to flow money properly and regularly, so that the wheels of the country's economy continue to run in a stable and sustainable manner (Sulaimon, 2018). Seeing the position of banks as intermediaries between money owners and debtors in an economic activity, Douglas (2008) says that banks play an important role in helping a country's economic growth. John L. Douglas further emphasized that the development of banks is part of the development of a country. Seeing the main tasks and functions of banks as described above, it is no exaggeration to say that banks are agents of economic development (Asian Development Bank, 2020). In addition, banks are also profit-oriented business entities. Therefore, apart from providing internal benefits to depositors, banks also benefit from borrowing customers in the form of interest (Harruma, 2022). In relation to the bank's position as a business entity, the main orientation for banks when experiencing a crime or fraud is recovery (Baidi & Yuherawan, 2023), not a deterrent effect or punishment as the aim of criminal law (Sut, 2007).

What the bank hopes for above has actually been accommodated in Article 37D UUPPSK. In that article it is stated that the investigation of banking crimes (tipibank) can be stopped by investigators if the investigation is approved by the OJK and the perpetrator pays all losses and costs incurred as a result of the banking crime. Thus, this article explicitly provides a large space for recovering losses suffered by banks in a banking crime. It is this provision that will be discussed specifically in this paper in relation to the settlement of indicated credit (tipibank) (Tampi, 2011), because in reality even in a credit agreement and conditions have been made, there are still many bad loans even indicated by tipibanks and This condition is very detrimental to the bank and also the country's economy.

## **Research method**

The study and discussion of the problems mentioned above are based on the applicable laws and regulations, especially UU-PPSK and PP-UUPPSK as well as references related to the issues discussed. Therefore, the research method used is normative research or legal research (Hoecke, 2011). The normative juridical research method is legal research based on documents such as laws and regulations, jurisprudence, court decisions, decisions of state or government officials, agreements and literature (Soekanto & Mamudji, 2001).

## **Result and discussion**

Terms and Procedures for Completion of Loans That Are Indicated by Tipibank Based on the UUPPSK Credit indicated as tipibank in this paper is defined as credit reported by creditors (banks), institutions/agencies/organizations or the public to the Indonesian

National Police or OJK on suspicion of tipibank in the credit concerned. The articles on tipibank related to credit in the UUPPSK include the following; Article 49 concerning false registration, Article 50 concerning violations of the principle of prudence or non-compliance with applicable legal provisions by affiliated parties and Article 50A concerning actions of shareholders ordering non-compliance with legal provisions in bank operations and business.

The provisions of the criminal law that apply in the settlement of credit indicated as tipibank are Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking as Amended by the UUPPSK, Law Number 31 of 1999 concerning Eradication of Corruption Crimes jo. Law of the Republic of Indonesia Number 20 of 2001 concerning Amendments to Law Number 31 of 1999 concerning Eradication of Corruption Crimes (UU-Tipikor) if the credit for the crime in question occurs at a bank with the status of a State-Owned Enterprise (BUMN) and the Law Law Number 8 of 2010 Concerning Prevention and Eradication of Money Laundering Crimes (UU-TPPU) if it is proven that the credit provided was used not in accordance with its designation and the Criminal Procedure Code (KUHAP) and PP-UUPPSK (Ganarsih, 2015).

With regard to settlement of credit indicated as a tipibank, Article 37D paragraph (7) states that the OJK has the authority to stop an investigation of a tipibank as long as the termination is approved by the OJK, the losses suffered by the bank as the victim have been reimbursed by the perpetrators of the tipibank concerned. In the process of terminating the alleged bank crime, there are several things that must be considered by investigators. This is regulated in Article 37D paragraphs (5), (6), (7) and (8) which read as follows;

In evaluating the application for settlement of violations and calculating the value of losses for violations as referred to in paragraph (4), the Financial Services Authority considers at a minimum: whether or not there is a settlement for losses arising from criminal acts; transaction value and/or loss value for violations; and the impact on the Banking sector, Banks, and/or the interests of the Customer and/or the public. In the event that the Financial Services Authority approves the request for settlement of violations, the party submitting the application for settlement of violations must carry out the agreement including paying compensation. In the event that the agreement as referred to in paragraph (6) has been fully complied with by the party submitting the request for settlement of the violation, the Financial Services Authority will stop the investigation. Compensation as referred to in paragraph (6) is the right of the injured party and is not the income of the Financial Services Authority.

Before terminating the tipibank, OJK or other investigators first conduct an investigation into the alleged tipibank on the credit. In relation to the duties and powers of this investigation, Article 2 paragraph (3) PP-UUPPSK states that investigators at the Indonesian National Police (Polri) have the authority and responsibility to investigate criminal acts in the financial services sector based on the Criminal Procedure Code. In carrying out their authority and responsibilities as referred to in Article 2 paragraph (4), OJK Investigators are under the coordination and supervision of the National Police. Looking at the provisions of Article 37D paragraph (2) above, if it is related to the purpose of an investigation, it can be said that the investigation carried out by the investigator on allegations of bank fraud on the credit before the application from the perpetrator is decided to be approved or rejected, there must first be clarity about alleged bank crimes or violations committed, who committed them, where and when they were committed, the

amount of the loss and the implications for the bank concerned. In principle, the investigation must be based on existing facts and legal evidence.

Through examination of the facts and evidence, at least make it clear and clear about the bank's alleged fraud that occurred on the credit in question. This is intended so that the decision taken by the OJK regarding the settlement request filed by the perpetrator for the alleged tipibank is correct and based, so that it does not harm the bank and the economy and the decision taken can provide justice and benefits for all parties. In the opinion of the author, the results of the investigation carried out by the investigator as described above, are one of the determining factors for the investigator (OJK) to accept or reject the request for termination of the suspected bank crime, even though it is not explicitly stated in Article 37D UUPPSK. Another thing that becomes an indicator in stopping the examination process for the alleged tipibank is the value of the loss, the compensation payment mechanism and the impact of the alleged tipibank for customers, the bank and or the community.

In connection with the termination of the investigation as described above, Article 8 PP-UUPPSK states that the termination of the investigation is carried out based on the results of the case title meeting and the investigator authorized to stop the investigation or to further handle the suspected bank fraud is the investigator who first handles the alleged criminal bank in question . Another matter related to the investigation and investigation process is the investigator's authority. Article 8 letter c PP-UUPPSK states that regarding allegations of general criminal acts involving alleged tipibanks, the investigation process for these alleged general crimes is the authority of Polri investigators. Therefore, the OJK must hand over the process of further examination of the alleged general crime to Polri investigators. Then, letter d in the same article states that if the investigator will or has stopped the investigation or investigation into the alleged crime, then it must be carried out based on the principles of restorative justice and the principle of *ultimum remedium*.

Based on the description above, it can be concluded that OJK has the right to stop allegations of bank fraud being carried out at the investigation stage. The conditions for terminating the investigation are; there is a request for settlement from the perpetrator, the application is approved by the OJK, the perpetrator is willing to compensate the bank for losses along with the costs arising from the alleged tipi bank accompanied by the time of payment. While the termination mechanism is carried out based on the results of the case meeting held by the investigator (not an agreement between the perpetrator and the bank (the victim) and the value of the loss and costs is determined by the OJK (not the bank, but belongs to the bank). Furthermore, Article 37D paragraph (9) states that in the event that the application for settlement submitted by the perpetrator is rejected by OJK or the party submitting the application for settlement of violations does not fulfill part or all of the agreement as referred to in paragraph (6), OJK will continue the process of resolving the alleged tipibank in credit to the investigation stage.

In the investigation stage as a follow-up to the examination of alleged tipibanks whose termination of the investigation was rejected by the OJK, the process of examining the tipibanks was continued at the investigation stage. During the investigation, the investigator then examined witnesses and also evidence (Wiriadinata, 2014). The main objective of the investigation is to determine the truth about the occurrence of the alleged tipibank, the place and time of the alleged tipibank and the parties allegedly related to the tipibank concerned (Marasabessy, 2015). If the allegations of bank crime meet the elements

of bank crime reported and have evidence as stipulated in the law, the investigator will then submit the files and perpetrators to the local district attorney for further prosecution through the public prosecutor in a trial at court.

During the trial in court, the judge will decide whether the defendant is proven or not to commit bank fraud as charged by the public prosecutor. If according to the Judge that what the Public Prosecutor charged is proven, then the defendant will be sentenced or criminal (Triwati, et al., 2015). Vice versa, if, according to the judge, the defendant is not proven to have committed a crime as charged by the public prosecutor, then the defendant must be released from the indictment. From the description above, it can be seen that there are several stages and law enforcement agencies that must be passed if a tipi bank is resolved through the courts. These stages make the litigation process in court long and time-consuming (Lisanawati, 2012).

### **Legal Problems in Settlement of Alleged Tipibank on Credit Based on the PPSK Law Termination of Tipibank in Article 37D of the UUPPSK is Contrary to the Principles of Legality in the Criminal Code and Criminal Procedure Code**

Based on the explanation from Article 37D, Article 1 KHUP and Article 109 KUHAP it can be concluded that there is a contradiction regarding the terms for terminating the alleged crime (tipibank). The contradiction of these provisions, of course, can lead to its own polemic in its application. This problem can actually be solved with consistency in the application of the principles of criminal law, namely *lex specialis derogat legi generalis* (special provisions can overrule general provisions). However, this solution in practice is still very likely to cause problems, at least it can generate debate, bearing in mind that in practice what is put forward is legal certainty (statutory regulations in force), not unwritten law (legal theory or principles) or the purpose of the law itself (Danil, 2012). The most appropriate way out of this problem is to renew/revise Article 1 of the Criminal Code, Article 109 of the Criminal Procedure Code and other provisions relating to the terms and procedures for terminating criminal acts or bank crimes by stopping investigations. This step, in addition to amputating differences in interpretation of the terms and procedures for ending a crime or tipibank, is also aimed at creating synchronization and integration between the applicable laws and regulations related to stopping a crime or tipibank. Thus, what is the goal of law, namely justice, benefit and certainty can be realized.

### **Completion of Restorative Justice and Application of the *Ultimum Remedium* Principle in Termination of Tipibank**

Article 37D states that allegations of bank fraud can be resolved by stopping the investigation as long as the perpetrator of the alleged bank crime pays all compensation and costs incurred as a result of the bank crime. Furthermore, Article 7 paragraph (1), Article 8 paragraph (1) letter d and Article 10 PP-UUPPSK stated that the termination and settlement of alleged general and/or tipibank crimes is carried out based on the principles and concepts of restorative justice and *ultimum remedium*.

In essence tipibank is a crime in the field of property. Therefore, the essential thing in a tipi bank is loss (return of the victim's assets) apart from the actions of the perpetrator (Rukmono, 2018). Amicable tipibank settlements are often referred to as penal mediation. Penal mediation is a model of solving criminal acts that prioritizes legal values that live in society. In this sense, living law in society (living law) is one of the foundations of legal

developments in the future (Sumardiana, 2015). In line with that, Muchtar Kusumaatmadja as quoted by Munzil and Noval (2012) said that legal renewal in the banking sector must consider the interests of national banking.

Settlement of criminal acts has actually occurred a lot in the world of practice. For example, in Central Java, many criminal cases have been resolved peacefully. Peace between perpetrators and victims is sometimes achieved because they are assisted by investigators who examine the alleged criminal acts in question (Raharjo, 2018). Development of laws and sanctions continues until now. This can be seen from the Draft KHUP Legislation Draft (RUU). Part of the Draft Criminal Code Bill includes formulations of norms and criminal sanctions that do not follow the formulation of norms and criminal sanctions as stipulated in Book I of the Criminal Code (Mudzakkir, 2008). Developments and changes bring about several aspects of life in their various goals which have shifted towards protecting various interests and achieving these interests properly without sacrificing other interests. The development of criminal law norms is partly due to the need for legal flexibility in resolving several criminal acts, one of which is tipibank.

This sentencing paradigm has long been the concern of law activists. Recently, the push for changing the goals and patterns of sentencing has been getting stronger. This is based on legal reality which shows that the current criminal system and objectives are not in line with legal objectives, national culture and state objectives (Adawiyah, 2019). The main focus of punishment today is on the perpetrators, not on the victims or society, not on how the perpetrators of crimes because of the law consciously want to acknowledge their actions and return to society. In addition to solving problems, the law should also be able to bring bad people to be good and right. The true law is a law that humanizes humans, not making wrong people right and returning to their essence, namely humans who have good conscience from birth.

The concept of punishment that has been adhered to and carried out by law enforcement officials has led to rejection from various groups (Kusuma, 2016). Today's society wants a shift in the concept of justice, namely from justice on the basis of retributive justice to restorative justice. Justice does not only belong to perpetrators, victims or other interested parties. The true law is for all human beings, regardless of status and position. In such a context, the law should be able to provide punishment that is oriented towards recovery and improvement for everyone who is in conflict with the law, in this case criminal law and punishment. In this regard, several articles in the Criminal Code regulate the basis for the abolition of the sentence. The articles referred to include the following; Article 44 because his soul is legally unhealthy, Article 48 because he defends himself. Article 49 paragraph (1) self-defence out of necessity, Article 50 for executing statutory orders and Article 51 for carrying out legal orders. Seeing the essence of the several articles mentioned above, it can be said that sentencing must be carried out objectively, proportionally and fairly. This is in line with the opinion of Ali Abubakar who said that the protection and restoration of the rights of victims and the community due to the occurrence of crimes is as important as the rehabilitation of perpetrators of crimes and harmonization of relations in the community after the occurrence of a crime (Abubakar, 2014).

Restorative Justice is a concept of conflict resolution that seeks to restore a situation that has changed due to (criminal) conflict to become conducive and harmonious again, as it was before the conflict or crime occurred (Surbakti, 2011). The approach used in restorative justice is kinship by way of deliberation and prioritizing recovery after a conflict

occurs. Settlement through restorative justice involves all parties, not only the perpetrators and victims, but includes the families of the victims or perpetrators and also the community (Susetyo, 2012). Then the interests that are the concern and priority in the intended settlement are not only the interests of the victims, but also the interests of the perpetrators, their families and also the community (Sukardi, 2016). Settlement through restorative justice is a settlement out of court by means of a win-win solution. In restorative justice, the role of victims, perpetrators and also society is very large in determining the rules of the game or agreements taken in resolving the conflict or crime.

The concept of resolving restorative justice is very different from the concept of resolving crimes (crime) adopted in the Criminal Code and the Criminal Procedure Code. As described above, the principle of legality in Article 1 of the Criminal Code emphasizes that there is no act that is not criminalized, if the act is legally subject to a criminal sanction (sanction). Likewise with the contents of Article 109 of the Criminal Procedure Code which states that an act that cannot be punished is only an act that is not a criminal event, the act does not fulfill the elements of the alleged crime and the act must be stopped because there is a legal interest that requires it.

Regulations that substantially contain the value or concept of restorative justice in the settlement of legal disputes include the following; Article 1 paragraph (3) of the Criminal Code which emphasizes the applicability of the law that lives in society which determines that a person should be punished even though the act is not regulated in statutory regulations. Article 51 paragraph (1) letter c of the Criminal Code which stipulates that punishment aims to resolve conflicts caused by criminal acts, restore balance, and bring about a sense of peace in society"; Article 2 paragraph (2) of Law no. 48 of 2009 concerning Judicial Power (Justice Law) which stipulates that the State Courts implement and enforce law and justice based on Pancasila"; Article 5 paragraph (1) of the Judicial Law stipulates that judges and Constitutional Justices are obliged to explore, follow and understand legal values and a sense of justice that lives in society; and Article 14 letter h of the Criminal Procedure Code which states that the public prosecutor has the authority to close cases for the sake of law.

The provisions above and the description of restorative justice, several conclusions can be drawn; First, the main goal of settlement through restorative justice is restoration of circumstances/improvement. Second, restorative justice in principle emphasizes the emergence of a voluntary sense of responsibility from the perpetrator to take responsibility and acknowledge his actions. Third, the main focus of restorative justice is on victims, even though the law requires protection for perpetrators and society. Fourth, the concept of restorative justice settlement is to position victims, perpetrators and also the interests of society in a balanced way. In its settlement, the same rights and protection are given to victims, perpetrators and also the community. Fifth, restorative justice is aimed at preventing crimes from occurring. Sixth, settlement through restorative justice is based on mutual will or will through deliberation to reach a consensus. Seventh, the community or law enforcement officials are parties that cannot be separated from the restorative justice process.

The discussion on restorative justice mentioned above, if it is related to the settlement of tipibanks through termination of investigations, then there are several things that should be noted, including the following;

The tipibank settlement procedure by stopping the investigation is not like the settlement concept adopted by restorative justice.

As described above, the concept of settlement through restorative justice is carried out by involving victims, perpetrators, families and even communities in their position as third parties who assist victims and perpetrators in solving crimes or conflicts that occur. All parties involved in the resolution of the crime gather for deliberations to find a comprehensive and accommodative solution to the interests of all parties regardless of the position and status of the parties participating in the deliberations. Settlement is sought based on consensus or agreement between the perpetrator and the victim or his family. Peace is the main way that is first attempted in solving the crime. Through an agreement which is followed up by implementation by the perpetrator and the victim, it is hoped that it can accommodate all the interests that exist in solving the crime. Losses that arise can be returned, conditions become harmonious and the most important thing is the presence of inner satisfaction for victims and perpetrators, so that such conditions automatically eliminate grudges and foster harmony again, especially between victims and perpetrators. The concept of tipibank settlement by stopping the investigation is not in accordance with the concept of restorative justice settlement

As described above, settlement through restorative justice is carried out based on peace obtained from deliberations among victims, perpetrators, families and/or communities. Thus the settlement mechanism through restorative justice is carried out based on the will of all parties, especially the perpetrators and victims, regardless of the position and status of each. In this deliberation, victims and perpetrators convey their wishes to be assisted by the community in their position as intermediaries for victims and perpetrators. The options taken in resolving crimes through restorative justice are options that benefit all parties, not only the perpetrators and victims, but also the interests of society. Therefore, the settlement of crimes in restorative justice is holistic and comprehensive. Then these options are obtained on the basis of the victim's own volition, the perpetrator or the community. This is based on the reality that the victims of a crime are not only victims or perpetrators, but also the community. Thus, the concept of settlement through restorative justice often involves the community or other parties who feel aggrieved from the occurrence of the crime in question.

This concept when connected with the concept of tipibank settlement as adhered to in Article 37D UUPPSK and PP-UUPPSK is different. It was said that because the settlement of tipibanks in the UUPPSK and PP-UUPPSK was only carried out by the OJK at the request of the perpetrator, without involving the bank as a victim. The decision to stop the investigation conducted by the OJK is also the OJK's own decision, without involving the bank as a victim. There is no deliberation between perpetrators and victims as is done in solving crimes or criminal acts through restorative justice.

In terms of objectives, the settlement of tipibank through termination of the investigation is not in line with the objectives of settlement with the concept of restorative justice. The main and first goal of settlement through restorative justice is to achieve justice, especially for victims and perpetrators. As for compensation in the concept of restorative justice, it is only a way to realize this justice. Therefore, settlement solutions in restorative justice are discussed through deliberation forums for consensus. It is in this forum that various existing interests can be seen. From this deliberation the victim and the perpetrator conveyed their wishes which were assisted by the community as a mediator. Through this



deliberation it is hoped that all the wishes of the perpetrators, victims and the public can be accommodated, so that all the interests of the parties related to the crime can be protected and conditions can return to normal as before the crime occurred. In restorative justice, the perpetrator's responsibility arises from the will of the perpetrator himself, not coercion. Such conditions are expected to create a sincere sense of responsibility from the perpetrators.

### **Termination of Alleged Tipibank in Article 37D UUPPSK is General**

Referring to Article 37D UUPPSK and PP-UUPPSK, it can be said that all tipibanks can be resolved by stopping the investigation into the alleged tipibank by the OJK. On the one hand, this provision provides legal certainty in the settlement of tipibanks through the termination of investigations. On the other hand, if it is examined further and related to the current reality both regarding the culture and system as well as the nation's moral readiness, especially law enforcement officials and perpetrators of bank crimes (white collar crime), then this provision can cause its own problems, especially in the application and enforcement related to Article 37D UUPPSK and PP-UUPPSK referred to.

This is because these provisions apply in general to all tipibanks, so it is very likely that this can be used by irresponsible people. It is highly likely that tipibanks will flourish because the tipibanks may be more daring to commit tipibanks, bearing in mind that if it turns out that their actions are discovered and legally processed, then the person concerned can escape imprisonment if the person concerned returns the proceeds he obtained from the tipibank. Likewise for law enforcement officials, this provision provides room for abuse of authority. Compensation as one of the requirements for terminating a bank crime investigation automatically opens up room for negotiation for the parties involved in the settlement. This condition certainly opens space for law enforcement officials to abuse their authority. This is based on the concept of negotiations that have not been supported by a transparent system.

The loss of fear for bank criminals automatically eliminates the function and purpose of the law itself. Therefore, ideally the provisions in UUPPSK 37D are not general. These restrictions can at least be made based on four criteria or categories. The criteria referred to include the following;

Seen from the actor's perspective. In this context, there are two things that serve as limitations or criteria for determining whether or not the investigation of the said tipibank is permitted by the OJK, namely as follows; Judging from the position/position of the tipibank. In this sense, if the perpetrators of tipibank are Shareholders, Directors, Commissioners or Officials at the level of Head of Department up to the Head/Chair of the State Financial Institution (OJK/BI), then the investigation by OJK cannot stop the tipibank. This is based on the consideration that these people are owners and fiduciary duty holders of these banks and financial institutions. Therefore, these people should be at the forefront and exemplary in maintaining their integrity and the place they work. Another consideration is that if these people are perpetrators of tipibank, if the investigation is stopped by the OJK, then this will damage the reputation of the bank and state financial institutions which of course can have an impact on the level of public trust in the bank concerned and the country's economic growth; And

Judging from the status of the perpetrator, is he a recidivist or not? In this sense, if the perpetrator of a crime bank is a recidivist, then the investigation by the OJK may not stop

the tip bank. In another sense, the tip bank must be legally processed until the alleged tip bank obtains a court decision that has permanent legal force. Thus, in this context the measure is whether the person is a recidivist or not? Against recidivists, exempted from the enforcement of Article 37D UUPPSK. Regarding bank fraud committed by non-recidivist persons, the investigation by the OJK may be terminated against criminal acts committed by the person concerned as long as it fulfills all the requirements stipulated by the UUPPSK and other applicable legal provisions. This is based on the consideration that for recidivists a more severe punishment is needed, such as imprisonment so that the person concerned can realize and regret his actions, so that in the future the person is expected to be better and not repeat his actions. Thus, the media that can be used for imposing prison sentences is only the court, so recidivists as perpetrators of bank crimes should be processed through the courts.

Judging from the aspect of mistakes and crimes that occur in tip bank itself. In this sense, if the level of wrongdoing and crime committed by the perpetrator in the tip bank is "big" or "evil", then the OJK should not stop its investigation. Large in this sense, for example, is "real intention" that is carried out by perpetrators in tip bank and the losses incurred are of great value. Meanwhile, the meaning of "evil" in this sense, for example, is "a conspiracy" that was deliberately carried out by the perpetrators of the tip bank concerned; Viewed from the aspect of the losses incurred. Loss is one of the criteria for terminating a tip bank investigation by the OJK. By looking at various factors and considerations, in the opinion of the author, the value limits for which an investigation may be stopped by the OJK must be clearly defined and limited. This is based on the consideration that the value of the loss is an important indicator in determining whether or not the investigation of the tip bank can be stopped. Determining the value of the loss is based on the calculation of costs, time, thoughts and energy expended if the tip bank is resolved through the courts. For losses that in nominal terms are small or small, if they are still resolved through the court, then this will certainly result in additional losses for the bank; And

Judging from the implications for the reputation of the bank. In this context, whether or not a tip bank can be resolved by stopping the investigation by the OJK is only based on the size of the impact that the tip bank has on the bank's reputation. In other words, even if the loss is small, the culprit is a subordinate employee (not a bank or financial institution official), but this has a significant impact on the bank's reputation, so the tip bank should be resolved through court. This is intended to maintain the bank's reputation, considering that banks as a financial industry, the main capital is public trust. This policy or decision is expected to be able to maintain the bank's reputation, so that public trust is maintained and the bank can run as it should. Thus the bank can realize its goal of helping the economic growth and welfare of its people.

It is necessary to confirm the understanding of violations and tip bank

Referring to Articles 37D, 50B and Article 50D UUPPSK and the weighing and deciding section, Article 2 paragraph (4) letter k, Articles 7, 8, 9 and Article 14, PP-UUPPSK it can be concluded that cases that can be stopped by the OJK (investigators) ) can be in the form of violations and tip bank. UUPPSK or PP-UUPPSK do not provide a definition or understanding of violations and tip bank. Article 1 number 1 PP-UUPPSK only provides a definition of criminal acts in the financial services sector. In that article it is stated that what is meant by a crime in the financial services sector is any criminal act as stipulated in the law regarding the financial services sector. In this article it is clear that the crime in

question is a crime that occurs in the financial services sector. In this paper it is referred to as tipibank. Meanwhile, in the UUPPSK and PP-UUPPSK there are no articles containing the notion of violations.

The absence of clear regulations regarding violations and bank *tipi* in the UUPPSK and also PP-UUPPSK at the practical level can certainly raise its own problems, especially regarding the meaning and understanding of these two things. Everyone may have a different understanding or understanding of what constitutes a violation and *tipibank*. This difference in interpretation will eventually lead to polemics in the application of the article in question. The absence of a clear and separate understanding between violation and *tipibank* gives us an understanding that the two things are the same, even though editorially/textually the two words have different meanings.

As we all know, one of the legal issues that still confronts us today is regarding the legal interpretation of several articles in statutory regulations. Thus, the unclear understanding of violations and criminal acts in the financial services sector as referred to in the UUPPSK and PP-UUPPSK is clearly a problem and creates ambiguity in its interpretation.

#### CONCLUSION

Allegations of *tipibank* can be resolved by stopping the investigation conducted by the OJK (investigators). The conditions and procedures for terminating the investigation are that there must be a request from the perpetrator of the *tipibank* that is approved by the OJK to stop the investigation and the perpetrator compensates for the losses suffered by the bank as the victim and the costs incurred by the *tipibank*;

The settlement of *tipibank* through the termination of the investigation contains several legal issues, among others, namely; Termination of *Tipibank* regulated in the UUPPSK and PP-UUPPSK Contrary to the Legality Principles in the Criminal Code and Criminal Procedure Code, the concept of *tipibank* settlement adopted by the UUPPSK and PP-UUPPSK is not the same as the concept of settlement through restorative justice and termination of the *Tipibank* Allegation as regulated in Article 37D UUPPSK should be limited .

UUPPSK and PP-UUPPSK do not provide a clear understanding of what constitutes a violation and *tipibank* (financial sector crime). This creates ambiguity in interpretation and creates legal uncertainty.

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## **MANAGEMENT AND LEADERSHIP FOR GENERATION Z IN AN ERA OF CHANGING EMPLOYEE COMMITMENT**

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**Abstract:** *The changing world of work absorbing Generation Z has to cope with the concept of employee commitment in a new way. Rapid staff turnover many organizations experience establishes a need for alternative leadership and management thinking, understanding that the era in which employees seek stability and long-term roles is over. This article presents the association between Generation Z characteristics, intergenerational management and leadership and Generation Z employee commitment. The article presents the view that this commitment is not necessarily measured in terms of time employees remain in organizations but, rather, to outcomes and connection to the success and progress of their roles. The article presents an approach for strengthening Generation Z employees' commitment through an understanding of their characteristics and expectations from organizations, improving management and leadership skills among managers from generations X and Y, adapting employee induction processes to Generation Z characteristics and the work environment to new employee needs.*

**Keywords:** *Generation Z, employee commitment, leadership, management, world of work*

### **Introduction**

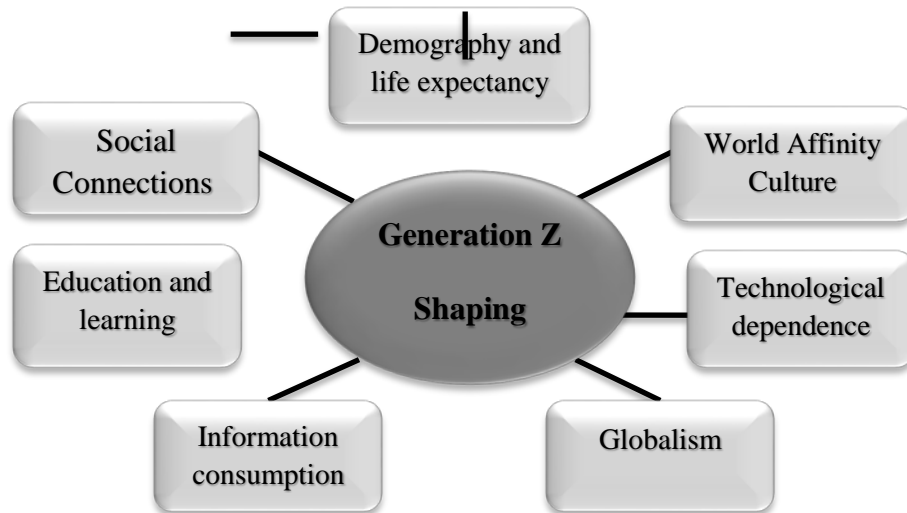
The post-COVID 19 era in the world of work has changed the rules of the game and set new challenges for managers and organizations mainly in light of employee behavior changes with an emphasis on young employees from Generation Z born between 1995 and 2020 (Seemiller & Grace, 2018). Organizations and managers have reexamined the Human resources are the most important resources for organizations and they are forced to cope with considerable employee turnover alongside a shortage of workers in many areas (Reiser, 2022). The concept 'employee commitment' has been reexamined in light of the developing reality. Additionally, a report measuring Microsoft's working trends in 2022 revealed that 58% of Generation Z employees were considering changing their place of work in the coming year, compared to 43% of employees from previous generations (Moot, 2022). The current article presents a new approach and understanding of the concept 'employee commitment' in the era in which Generation Z has entered the work cycle and has created a new reality and change in management views for managers and organizations. The view presented here combines Generation Z characteristics and leadership required to produce employee commitment and is supported by research literature and substantial work experience on the ground with managers and organizations.

### **Literature Review**

*Generation Z Employee Characteristics*

Generation Z has recently entered the work cycle and joined employees from previous generations (baby boomers, X and Y). Many studies have classified the employee qualities of this new generation compared to previous generations. McCrindle categorized 7 factors shaping this generation.

Figure 1 Factors shaping Generation Z



Written by author, based on McCrindle (2014)

Factors shaping Generation Z are based on the understanding that this generation will live in a world where life expectancy is rising, a fact likely to affect the world of work, economics and households and obviously in the future will affect finances and pensioner-worker relations in western countries. The culture of global abundance has led to this generation being flooded with material stimuli, technologies and formal education is more organized than previous generations. It is a generation born into the technological era and who uses it in every area of life, depending and relying on it. It is the first truly global generation, which affects consumer culture: food, fashion, culture, communication, establishing connections, initiatives and economics. Information consumption has changed to visual and graphic consumption reading symbol based messages and images as an alternative to long texts, as well as internet searches in place of book use. Education and learning is ongoing and does not constitute a special chapter, portable equipment is part of the learning experience at any age. Changes in the concept of friendship, transition to a multitude of friends on social networks and strengthening cross-border connections in digital space (McCrindle, 2014).

In the world of work the sense of confidence in technology affects the choices Generation Z will make and is different from those made by previous generations and thus creates a challenge both to managers and human resource managers (Lanier, 2017; Singh & Dangmei, 2016). Late maturity characterizing this generation affects their personal lives and choices they make in the world of work (Twenge, 2017). This is a generation seeking flexibility and creativity and a desire to try a range of employment (Seemiller & Grace, 2018). The value of home-work balance that led generation Y remains very important for Generation Z employees as well (Lanier, 2017; Twenge, Campbell, Hoffman & Lance,

2010), alongside an increasing importance for work environment, team relationships and enjoyment that Generation Z employees seek in their roles and workplaces (Kirchmayer & Fraticová, 2020; Lev, 2022).

In addition, research literature has shown that Generation Z seeks personal growth in the workplace and needs continuous feedback (Lev, 2022). A survey conducted by McKenzie in 2022 emphasized the change in employees' expectation of feedback, from periodic and instant feedback. On the other hand, Generation Z is more sensitive to criticism and is likely to translate this even radically by leaving the workplace (Dua & Kweilin, 2022). In fact, this generation has led to a change in the psychological contract between managers and employees in everything related to employees' place and development in an organization (Schroth, 2019). Their enjoyment factors at work are different from those of employees from previous generations, they are more driven by intrinsic motivation compared to previous generations (Mahmoud et al, 2020). Meaning in a role is a central enjoyment factor alongside variety (Mahmoud et al, 2020; Chillakuri, 2020). Racołta-Paina and Irini's (2021) study in Rumania showed a generation of employees seeking transparency and innovation in the world of work. Generation Z employees are much more direct in their approach and despite a lack of employment experience, they expect salaries, benefits and conditions ranging from very high to unrealistic (Racołta & Irini, 2021).

Moreover, the COVID -19 period honed the intergenerational gap in the world of work. Studies conducted during this period showed that in a period of uncertainty the need for stability and security stood out in Generation X in contrast to Generation Z that did not view this value as important, but what was very important was pleasure derived from work (Mahmoud et al., 2021). Ongoing working from home is difficult for them, Generation Z feels less productive when they only work from a distance, the hybrid work model is a complete solution for them. It is a generation that needs social interaction at work (McCrindle & Fell, 2020). A Linked-In survey conducted in May 2022 in the U.S.A. reported that 70% of Generation Z employees experience revival in their careers, feeling bored or wanting to change jobs as a result of Corona. 33% had already begun to look for new jobs and area, 30% looked to develop or change roles within the organizations in which they worked (Moot, 2022). Data from the McKenzie Institute is even more radical in assessing the desire to leave one's workplace, according to this data, 77% of Generation Z employees are considering leaving their workplace in the coming year (Dua & Kweilin, 2022). In conclusion, Generation Z come to the world of work with new characteristics and different expectations, constituting a new challenge for managers, but nevertheless also bring opportunities to organizations.

Intergenerational leadership – the issue of leadership in the world of work always awakens excitement and expectations and is seen as a key component of organizations' success. The concept leadership has been explored a lot and has a range of definitions. Lussier and Achua (2015) defined it as a process influencing leaders and followers to reach organizational achievements and goals through change (Lussier & Achua, 2015). Kotter (1990) defined leadership as the ability to produce change, he viewed management and leadership as two different components complementing each other (Kotter, 1990). Yukl (2012) argued that the essence of leadership in organizations is in fact the effect of personal and collective efforts on achieving a common goal (Yukl, 2012). Leadership can improve staff performance in an organization. Several studies have shown the difference in intergenerational perceptions of evaluating leadership of employees in the world of work



(Bako, 2018; Sessa, Kabacoff, Deal & Brown, 2007) to be influenced greatly by generational qualities, their leading values, qualities, and behaviors employees look for in managers.

The literature and research have tended to explore the issue of leadership a lot, but whether there is also an intergenerational gap in employee needs for a management and leadership style? The professional literature is divided about this and points to a number of approaches. Differences in generational characteristics and existing organizational conflict, employees' experiences and values led to a need for different intergenerational leadership (Al-Asfour & Lettau, 2014; Sessa et al., 2007). Sessa et al. (2007) found an intergenerational difference in assessing leadership qualities: baby boomers (1945-1965) seek wise and persuasive leaders, diplomats with political ability, experienced with a long-term view, and credibility is the supreme value they seek in leaders. Generation X employees (1965-1980) seek optimal, persuasive, and experienced leaders capable of seeing the broad picture, they seek leaders with abilities to focus, pay attention, encourage and feedback. Generation Y (1980-1995) seek loyal, creative leaders who show concern for employees personally and pay attention to them.

Bako (2018) identified an intergenerational gap in intergenerational leadership perceptions. According to his study, Generation Z is different from previous generations in its expectations of leaders who take risks, are willing to sacrifice, awaken conflicts and encourage diversity. Bateh's (2019) research findings showed that leaders must have the ability to lead different types of employees with diverse characteristics, values and behaviors and therefore it is incorrect to define a single leadership style to lead Generation Z (Bateh, 2019). Laudert (2018) argued that considering Generation Z's characteristics, it expects authentic and adaptive leadership capable of best containing it (Laudert, 2018). Petrucci and Rivera (2018) presented the need for digital leadership in light of intergenerational change and employees' transition to be more technological, they saw the effect of generational Z on developing leadership and managers' need to motivate employees to communicate with them, to provide digital feedback as part of new leadership expected of managers (Petrucci & Rivera, 2018).

In conclusion, there are many approaches addressing intergenerational leadership and a lack of unity whether for Generation Z a specific leadership is needed in light of intergenerational diversity or alternatively managers need a basket of skills to implement according to need.

Employee commitment – employee commitment comes from the view that employees are the most important organizational resource and measures the connection employees experience with their organizations. Employees committed to their organizations feel integrated and understand organizational goals (Beloor, Nanjundeswarasewamy, Swamy & Swamy, 2017). Maxwell and Steele (2003) defined employee commitment as a chain link connecting commitment to work to a behavioral approach in the workplace (Maxwell & Steele, 2003). Mayer, Allen and Smith (1993) viewed employee commitment as a multidimensional concept made up of three components including willingness to make effort on behalf of an organization, adherence to organizational values and desire to remain in an organization (Mayer, Allen & Smith, 1993). The importance of commitment according to Dordevic (2004) is employees' behavioral implications starting with performance at work, absence, and other organizational behavior (Dordevic, 2004).

In addition, Brown et al.'s (2011) extensive study also showed the effect of employee commitment and loyalty and improve organizations' business performance, but also pointed out that creating this commitment must be through an organizational human resources' approach and trust in employees (Brown, McHardy, McNabb & Taylor, 2011). Another measure found to strongly correlate with organizational commitment was employee satisfaction with their workplace. This measure was examined in several studies (Jabbar et al., 2019; Saputra & Mahaputra, 2022), those that examined which factors affect employee commitment and found a wide range of reasons including reward and salary, work environment, social climate and relationships with managers (Beloor et al., 2017). Both management and leadership constitute an important factor affecting employee commitment. Jabbar et al.'s (2020) study showed the effect of leadership on commitment from a negative angle, how the effect of managers' offensive leadership leads to a low level of employee commitment and desire to leave an organization (Jabbar et al, 2020). On the other hand, improving management skills strengthens employee commitment with an organization and even influences organizational effectiveness (Gul, 2015; Osa & Amos; 2014; Welch & Mickelson, 2013). Nevertheless, it was found that there was mutuality in the value of commitment, in other words, alongside the effect of managers and organizations on employees. There is also an effect on managers' management and leadership style (Saputra & Mahaputra, 2022). In conclusion commitment has many components but noticeable from the review is that the issue of leadership has a significant effect on employee behavior.

### **Re-Observation of Generation Z Commitment in the World of Work**

As the literature review above showed, over the years the value of commitment has been seen mainly as employees desire to remain in an organization, adherence to organizational values and willingness to invest over and above work hours. A few factors affect this commitment from managers' management and leadership, through satisfaction with workplace, rewards and more. This view was validated mainly because employees from the baby boomer and X generations remained in the same organization for years and viewed it as home and a supreme value. Generation Y was the first to crack this view and change workplaces more frequently. However Generation Z has completely changed the rules in the world of work. Its characteristics, which do not necessarily seek stability in the world of work as employees from previous generations and is not moved by changing workplaces, producing a reality of high turnover harming organizations. As written in the review, Generation Z comes to the world of work under the influences of a fast-progressing world, full of stimuli and abundance previous generation had not known. Therefore, how employees think, and concepts perceived among previous generations are translated differently by this generation.

How Generation Z view the value of commitment is slightly different, rapid exhaustion in a role and the need for a new challenge led employees to become bored quickly and need to refresh themselves. For them, turnover is legitimate and sought as part of personal development. Commitment as a value for this generation is the ability to learn their role quickly, lead rapid outcomes and performance, innovation and meeting the needs of their role. Generation Z's commitment is first and foremost to themselves, the pyramid of previous generations in which organizations were at the top has overturned: Generation Z

views employees at the head of the pyramid and thus their expectations from organizations and managers. If in the past, employees in the world of work had seen the workplace and central anchor in their lives, Generation Z views the workplace solely as a temporary station, as a place to develop personally and professionally and no less importantly as a social place that must provide it with daily pleasures. Generation Z is critical and opinionated, does not accept things as obvious and therefore, conflict with managers and organization is more frequent, their lack of fear of stability alongside high self-confidence allow employees to leave without fear and believing that this is the route to their personal and professional development. Moreover, in the world of work there is a reciprocal principle in which reciprocal behavioral effects exist and as employees from previous generations influence Generation Z, young employees influence older employees in changing views of organizations and the world of work.

To cope with the new reality leading Generation Z and turn the change into an opportunity, organizations and managers must understand, in principle, that employee turnover is part of the new world of work led by Generation Z and affects older employees. Hence, the organizational perception that commitment is not necessarily a measure of remaining within an organization or sense of belonging but is also output and the value it brings to a role. This output is rooted in learning and development in a role, a sense of meaning and organizational value even if it is for a shorter period. Implementing change comprises three components:

Intergenerational leadership – understanding that managers constitute a significant factor for functioning, managers must strengthen intergenerational leadership, in other words, ability to lead and manage employees from different generations, understanding expected characteristics, values and behaviors, respect them and motivate employees using their strengths. Intergenerational leadership will develop by getting to know the generation of employees, their motivational factors, establishing open discourse and building mutual trust, strengthening intergenerational relationships between employees, creating reciprocal learning, and accepting diversity. Managers must improve management skills likely to provide employees with a challenge and meaning and thus to create better productivity in their role and perhaps even the desire to remain within an organization for longer than planned.

Managers' approach as employee coaches is likely to improve employee commitment with managers by creating a sense of personal development and investment in employees. Generation Z's commitment is affected by staff social climate and close environment, and here too, managers have an important role in building and consolidating staff and creating a supportive social climate. Since Generation Z is technologist and relies on technology, managers are expected to improve their digital leadership, openness to technological changes.

Employee induction processes – understanding that employee turnover is part of the new world of work requires thinking about employee induction and learning processes so that they are fast and efficient, connecting employees to organizational goals and achieving high performance in a short period of time. Generation Z is characterized by high independent learning abilities, ready for conceptual changes and able to cope better than previous generations, and therefore, organizations must build infrastructure allowing independent learning such as accessible knowledge management repositories, self-paced courseware and videos. Alongside rapid professional learning for a role, it is important to

strengthen the mental side of new employees to provide a sense of belonging and development, integrating organizational mentors who accompany employees at that stage is likely to improve the process and enable rapid employee integration.

Work environment – Generation Z employees, who have grown up in a world of abundance and innovation ascribe importance to the working environment and social climate. Corona has taught us that it is Generation Z who finds it difficult to work solely from a distance and also needs a supportive and progressive working environment allowing it to perform its role with pleasure and creativity. Since work environment affects employee commitment perceptions, organizations must examine work environments and adjust them to the changing reality, to produce a pleasant and innovative environment.

In conclusion Characteristics of new employees from Generation Z already affect the world of work and value of commitment for organizations. Organizations and managers must internalize the notion that employees are only temporary in their workplace and the commitment value must be reinterpreted as performance in a role, a desire to learning and development, meeting organizational goals and leading to innovation. Implementing this change involves developing intergenerational leadership that understands generational characteristics and develops management and leadership skills, rapid employee induction processes and improving work environments.

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## **EFFECTS OF FEDERATED PENSION SCHEME ON THE WELFARE OF PENSIONERS IN THE GAMBIA**

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**Abstract:** *The study investigated Security and Housing Finance Corporation (SSHFC) as a service provider and the welfare of pensioners in The Gambia. This was with the view to determining the effect of Federated Pension Scheme (FPS) at SSHFC on the welfare of pensioners in the country. Both primary and secondary data were used for the study. Primary data were collected through questionnaire administration and policy documents. The population of the study was 3383 respondents which comprised pensioners and administrative staff who were responsible for managing pensions at SSHFC. Using proportionate-to-size sampling technique, a sample size of 345 respondents was selected and contacted for questionnaire administration. Descriptive and inferential statistics were used to analyse the data obtained from the questionnaire while content analysis was used to analyse the documentary data. The findings revealed that the regulatory frameworks for SSHFC i.e., FPS, lacks the necessary components such as Project 59, and a provision to review the computation formula to ensure adequate pensioners' welfare from SSHFC. Also, the findings revealed that there is a significant relationship between the welfare of pensioners and the Federated Pension Scheme services provided by SSHFC in The Gambia. The study concludes that FPS has a positive effect on the welfare of pensioners in country.*

**Keywords:** *federated pension scheme, welfare, pensioners, service delivery, social security*

### **Introduction**

Social Security is commonly regarded as a basic human right. It is enshrined in international legal instruments such as the Universal Declaration of Human Rights, and the International Covenant on Economic, Social, and Cultural Rights that was enacted by the UN General Assembly Resolution 2200A (2I) of 16 December 1966; Article 9. According

to Bloom and McKinnon (2013), this agreement supports the principle of the right to receive a cash income in the form of an old-age pension on a regular and predictable basis. Social Security is defined as “benefits that society catered to old age pensioners with their household through public funds in order to provide them a protective living standard against low or declining living standards arising out of several basic risks and needs” (Ginneken, 2008). According to the ILO Convention and UN instruments, Social Security is clearly defined as a basic human right. According to B.B. Nyan (personal communication, June 15, 2021), the State Pension Board (SPB) which was established in 1950 has been the regulatory framework that was used by the colonial masters as a form of social protection for servants working under the colonial masters. After independence in 1965, the first Republic of The Gambia inherited the same system to be responsible for all the civil servants. But Goldstein (2008) states that ‘part of the cornerstones of any government in building or formulating policies is to improve the welfare of its citizenry, is the services offered’. Therefore, to improve the welfare of the Gambian people and make sure that the services provided are effective, the government then established her own state enterprises such as Gambia River Transport Corporation (GRTC), Gambia Livestock Marketing Board (GLMB), Gambia Producing Marketing Board (GPMB), Gambia Utility Corporation (GUC), Gambia Corporative Union (GCU), Gambia Ports Authority (GPA), and Gambia Public Transport Corporation (GPTC) which resulted in an establishment of another Act on the 1st of July, 1973 to include all state enterprises and civil servants. Furthermore, in 1981, the Government of The Gambia abolished the State Pension Board and established Social Security and Housing Finance Corporation (SSHFC) by an Act of the National Assembly (NA) and enacted it on the 1st of July, 1982. The 1981 SSHFC Act gives SSHFC the mandate to administer Social Security funds, and make a provision for payment of benefits to its members at the time of retirement (SSHFC ACT, 1981). This resulted in the creation of two funds namely Social Security Funds and Housing Finance Funds. The Social Security Fund comprised the Federated Pension Scheme (FPS) which currently manages fifty (50) federated pension institutions and the National Provident Fund (NPF) which also manages six thousand, three hundred and ninety-nine (6,399) national provident fund institutions (SSHFC Actuarial Unit, 2021).

Subsequently, several Acts of the National Assembly have been passed which provide the regulatory frameworks that govern the Social Security contributions payable and payment of benefits to the scheme members. However, there exist different types of pension schemes in The Gambia such as: (1) Public Service Pension Scheme (PSPS) which covers government employees (Civil Servants and Uniformed Services) only; (2) special provisions for National Assembly members, Local Government Authority employees, and District Chiefs; (3) Federated Pension Scheme (FPS) covers Non-government public sector employers and employees; (4) National Provident Fund (NPF) which covers the private sector employers and employees; and (5) Several registered occupational schemes such as the Industrial Injury Compensation Fund (IICF).

Social Security and Housing Finance Corporation manages the Federated Pension Scheme, the National Provident Fund, Industrial Injury Compensation Fund, and Housing Finance Schemes. This study concentrates on the Federated Pension Scheme (FPS). The Federated Pension Scheme comprises all parastatal institutions in The Gambia that were established by an Act of the National Assembly. The Federated Pension Scheme is one of the constituent funds of the Corporation. It is a final pay scheme meaning that it pays benefits

based on age, length of qualifying service, and final salary as at the date of retirement from service, or on the date of death of the member. Currently, there are fifty (50) member institutions federated under this scheme. Any member working under a registered institution of the Federated Pension Scheme must be registered. According to SSHFC Act (2010, 2015), the Federated Pension Scheme was meant for parastatal organisations established by an Act of the National Assembly. Notwithstanding, a few private sector institutions have decided to join the Federated Pension Scheme such as Trust Bank Ltd, Global Security Insurance Company, Sonko Jileng Enterprises, and Gambia National Insurance Company even though it is neither mandatory for them, nor is there any clause in the SSHFC Act, 2015 that provides that option.

The following categories are exempted from the Federated Pension Scheme: civil servants to whom the State Pension Act, 1950 (Cap.137) applies, workers below the age of eighteen (18), casual employees paid daily and employed on a fixed-term contract not exceeding one-month duration, and any other category of employees which the Managing Director in his discretion shall determine to be casual employees. The scheme was funded from contributions at a rate of nineteen percent (19%) of the employee's basic salary from 1982 to 2015. However, after the 2015 SSHFC Act was amended, the contribution ratio changed to fifteen percent (15%) of the employee's gross salary. The scheme's employer liability and the retirement age were revised from age fifty-five (55) to age sixty (60) which took effect in April, 2004 (SSHFC Act, 1981, 2015). Under this scheme, there exist categories of retirement benefits ranging from normal retirement at age sixty (60), voluntary retirement at age forty-five (45), redundancy benefits with a minimum pensionable service of ten years (10); and on the ground of ill-health or death, the survivor benefits will be paid to their dependents.

According to SSHFC Act, 2015, the benefit computation formula for the Federated Pension Scheme is one (1) over six hundred (600) multiplied by completed months of service multiplied by the terminal salary ( $1/600 * \text{months of service} * \text{terminal salary}$ ). In this computation, the pensioners are either referred to as a full annual pensioner or reduced pensioner. The first refers to a pensioner who at the time of receiving the pension did not exchange any portion of the pension in the form of gratuity or lump sum, while the second refers to a pensioner who chooses to receive a lesser gratuity with a larger monthly pension. Retiring at the normal retirement age, a member enjoys maximum benefits of both gratuity and monthly pension. If a scheme member exits prematurely, it attracts a lower benefit in proportion to the number of years by which the member retires earlier. According to the Federated Pension Scheme Act, (2015), a member who has less than five years scheme membership and has not reached the age of forty-five (45) and wants to retire on his/her own free will can only be paid the benefits upon attainment of age forty-five (45) and on a lump sum. In some cases, a scheme member's benefits can be forfeited when dismissed from service or terminated on account of negligence, irregularity, or misconduct. When a member of the Federated Pension Scheme (FPS) resigns from the job to avoid dismissal or fails to complete five years of service and leaves on grounds other than ill-health, disability, or death, the member forfeits the benefits. It is obvious that such members lose their benefits. An intra-scheme transfer is possible under the FPS where a member can transfer from one institution to another without losing the benefits secured while in the service of the previous employers. However, the previous employers must give written approval for the transfer to be effective (SSHFC Act, 2015).



According to ILO (2018), employees contribute to national development throughout their working life, so it is fair that once they are at old age, they are not left behind and that prosperity is shared with them. As a result, while people were enjoying good health care and productive capacity, the labor force were contributing meaningfully to national development by engaging in a tax deferred savings. Therefore, it is fair to provide for such people with an income when they are no longer earning a regular income from employment (World Bank report, 2006). Unfortunately, Government or society tends to marginalise them at old age. Informed by the significance accorded by both nationally and internationally recognised instruments to social security as a socio-economic as well as a basic human rights engagement, this study examines the impact of the Federated Pensions Scheme on the welfare of pensioners in The Gambia.

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

A number of scholars (Akhiojemi, Ifeanacho, & Abu, 2018; Adeniji, A, Akinnusi, Falola,, & Ohunakin, 2017; and Fapohunda, 2013) have conducted empirical research on the critical issues affecting Social Security functions and the welfare of pensioners. The public and political outcry on pension funds is often centered on the misuse of Social Security funds and non-profitable investments, non-compliance of employers, delay in pension payment at old age, and the lack of interaction with pensioners. Taking such a holistic view, Social Security and Housing Finance Corporation has formulated a Strategic Plan in 2015 which includes Project 59 that was meant to solve some of the outcries of the pensioners such as the untimely payment of pensions. Stewart and Yermo (2009) document the effectiveness of the pension enforcement body in Hungary in enforcing employers' compliance, and Ofori (2019) researched on the effect of expansion of coverage and employers' compliance on pension funds. However, little research has been carried out in linking Social Security and the welfare of pensioners in The Gambia. As a result, there are some pressing questions regarding the dispensation of Social Security benefits to pensioners in the country that have received little or no scholarly attention. For instance, is this project 59 really happening? Are pensioners satisfied with their payments? Are the services provided by SSHFC associated with the welfare of the pensioners? These are part of what the study wants to investigate. Although pension payment is expected to enable pensioners meet their basic needs such as food, clothing, housing, health services and live their lives with dignity and expected self-esteem, pensioners are instead being reduced to a life of low self-esteem. The question here is why is this happening? Are there laws put in place to manage the pensioners' funds, on the management system of the Corporation, the contribution rate paid by the employers, or the formula used to calculate the gratuity and monthly pension? Hence, the paper aims to assess the effect of Federated Pension Scheme on the welfare of pensioners in The Gambia. This study intends to interrogate these issues with a view to coming up with conclusion and recommendation to rectify the situation. The hypotheses of the study are:

*H0: There is no relationship between welfare of pensioners and services provided by SSHFC.*

*H1: There is relationship between welfare of pensioners and services provided by social security.*

Specifically, this paper sought to assess the effect of Federated Pension Scheme on the welfare of pensioners in The Gambia. To address these, the paper aimed to answer the following question: how has Federated Pension Scheme influenced pensioners' welfare in The Gambia?

## **Theoretical and Empirical Review**

### *Theoretical Review*

One of the challenges faced by developing economies in the world is the provision of better life for retirees with the ultimate objective of enhancing their welfare and reducing their level of poverty (Ahmed & Salisu, 2010). One of the major ways of overcoming these challenges, as suggested by Ahmed and Salisu, is through the provision of pension systems. Pension represents a major form of Social Security that is used in addressing old age-crisis (Idris, et. al, 2016). According to World Bank (2019), pension systems in general have two main functions; namely, to alleviate poverty by generating retirement savings plans and smooth consumption over an individual's lifecycle by providing income replacement in old age. According to Barr and Diamond (2008, p. 25), "the primary objective of pensions is economic security at old age which can be achieved through consumption smoothing, insurance, poverty relief, and redistribution of funds. According to the World Bank, the primary objective of pensions design is to optimise old age security, including the cost of providing it (World Bank, 2021). Pensions play an important role in poverty alleviation for the elderly since they are among the most vulnerable groups in any society, particularly older women. Being paid a monthly pension and share with family members builds confidence in the elderly and integrates them into the community instead of feeling like a burden on their families. According to ILO, social security schemes adequately covered only one in every five workers, while the World Bank reported that only 15% of the world population over 65 has adequate retirement benefits. In sub-Saharan Africa, less than 10% of the older population has a contributory pension (Palacios & Pallares-Miralles, 2000). Public pension arrangements can be used as a social protection which is increasingly considered as contributing to every development process in the same way as health and education (van Dullen, 2007). However, irrespective of the type of pension arrangement, pension management has also been shown to have consequences for broader society, as the pension benefits provided to the elderly in reducing poverty among them are in turn shared with their grandchildren by providing food, clothing and school materials (Stewart & Yermo, 2009). According to Stewart and Yermo (2009), issues surrounding the aging population and pension cannot be addressed at an early stage, and developing countries should try to use their demographic sweet spot before the dependency ratios will fall and the impact of aging hits the continent (Stewart & Yermo, 2009).

### *Empirical Review*

According to an ILO report (2011), 75% of the world population which is about 5.1 billion people is not adequately covered by Social Security (ILO, 2011, P. xxi). A lot of literature has revealed that the poverty level in the world can be reduced if pension management system is utilised adequately (Oyeniya, Afolabi & Mufutau, 2014). The results of a study generated by Sptzer, Regoshora and Mabeyo (2010) were similar to those of Mboghoina & Osberg (2010) who conducted a research on the current status and future possibilities

about social protection of the elderly in Tanzania. Both studies conclude that Tanzania would face the escalation of poverty to elders if the government does not take measures to ensure that elders are properly protected. The majority of these elders, especially women over 60 years, are living with their grand children whose parents are either dead or outside Tanzania. Thus, they are subjected to extreme poverty and lack of food and have access to no or little pension. In South Africa, the essence of pension management has significantly shown that pensions reduce the poverty gap ratio by 13% and increase the income of the poorest 5% of the population by 50% while families receiving pensions are 11% less likely to become poor. This is in sharp contrast to Tanzania, where there is no pension and out of 146,000 children orphaned with HIV/AIDS, only 1,000 attended secondary school because their grandparents could not afford the fees due to old age without any form of social protection (Stewart & Yermo, 2009). According to the 1998 ILO report, in the Republic of Senegal 31% of the contributors are in the police force or the army, 39% are teachers, while 29% constitute the civil servants (including contract workers for whom contributions are made to IPRES). Total Fond National de Retraite (FNR) contributors comprise around 1.3% of the estimated labor force in Senegal. The FNR currently has around 31,000 beneficiaries. In 1997, 32% of the beneficiaries received the old-age pension, 14% an early-retirement pension, 9% an invalidity pension, and 44% a survivor's pension (Faye & Ndiaye, 2002).

## **Methodology**

The study adopted a descriptive survey design method and a simple random sampling technique in order to obtain the sample size for the study. To meet the objectives of the study, both quantitative and qualitative research methods were employed. This survey design sought to engage the pensioners and the relationship between Social Security and Housing Finance Corporation (SSHFC) a service provider and the welfare of pensioners as well as engage the administrative staff responsible for processing benefits at the Benefit Unit of SSHFC, and report on the challenges SSHFC faces in managing pensions. A sample of the population of pensioners was selected for the study to obtain the required information by studying only a portion of the total population. However, the study ensured that the respondents selected are true representatives of the total population, and to gather relevant data from the respondents, the suitability of the design tool was pre-tested to cover for possible shortcomings. The study focused on pensioners in the Greater Banjul Area comprising Banjul, Kanifing Municipality and West Coast Region who received their pension gratuity from 2018-2021 and those currently receiving their monthly pension, as well as the employees at the Benefit Unit of SSHFC who are working directly on the pension scheme. The choice of the pensioners and the staff under the Benefit Unit is motivated by their relevance to the study.

### *Population of the Study*

The population of the study is the combination of pensioners from which the sample was selected. According to David and Chava (1976), a population can be defined in terms of content, extent and time. Therefore, the population of the study reflects the combination of pensioners receiving pension from SSHFC and are living in the Banjul Administrative Area, Kanifing Municipality and some parts of West Coast Region, and the employees of

SSHFC that are dealing directly with the pensioners (Benefits Unit employees). Thus, the population of the study is three thousand three hundred and eighty three (3,383) as shown in Table 1.

**Table 1: Population of Pensioners and Administrative Staff**

Category	Population Size
Pensioners	3363
Administrative Staff at Benefit Unit	20
Total	3383

Source: SSHFC Benefit Unit (2021)

*Sampling Size and Sampling Techniques*

The sample size of the study was determined by using Cochran (1963) modified sampling formula which is ideal for smaller populations.

$$n_0 = \frac{Z^2pq}{e^2}$$

Where:

p = estimated proportion of the population (5%)

e = margin of error (0.05)

q = 1 - p

Z-value is found in a Z table

$$\frac{Z^2pq}{e^2} = \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} = 384.16$$

$$n_0 = 384.16$$

Using the Cochran’s modified formula, the sample size for this study is as follows;

$$n = \frac{n_0}{1 + (n_0 - 1) / N}$$

Where:

n = new adjusted sample size

N = is the population size

n<sub>0</sub> = required return sample size according to Cochran’s formula

$$n = 384$$

$$1 + [(384-1)/ 3383]$$

$$n = 384/1.1132 = 344.95 \text{ approximately } 345$$

Based on Cochran’s modified formula used, the sample size for the study is 345 respondents living within the Greater Banjul Area (GBA) of The Gambia, which represented 10.2% of the total population of 3,383. The study employed multiple-stage sampling technique in selecting the respondents. At the first stage, Cochran’s modified sampling equation was used to calculate the sample size of the study. At the second stage, a proportionate-to-size sampling technique was used to calculate a sample for each unit of the samples. The sample size for GBA pensioners is 326 which represent 10% of the population, while the sample size for the administrative staff at the Benefit Unit is 19. At the third stage, proportionate-to-size sampling was used to select ten (10) pensioners and five (5) administrative staff at the Benefit Unit for the interviews. The data collection was

done through an open-ended questionnaire which was distributed among the respondents during fieldwork as shown in Table 2.

**Table 2: Sample Size**

S/N	Category	Sample Size
1	GBA Pensioners	326
2	Benefit Unit	19
	Total	345

Source: Field Survey (2021)

## Results and discussion of findings

### *Socio-Demography Characteristics of the Respondents*

This section presents relevant data obtained from the questionnaire. It concentrates specifically on the demographic details of the respondents. Given that the research was gender sensitive, the gender of the respondents was recorded to ensure that both males and females were considered. However, the gender disparity had no infringement on the data collected since the information needed for the study is not gender-oriented. According to the data presented on Table 3 below, 239 (70.71%) of the respondents were males while 99 (29.29%) are female. Gender balance was really considered during the field work but the larger number of male respondents reflects the male dominated population of the study. The research also considered the age distribution of the respondents aimed at selecting respondents of varying ages that provided relevant information for the study. The results show that most of the respondents are aged 60 and above constituting 313 (92.6%) while those respondents aged between 45 and 59 are 25 (7.4%). This shows that all the respondents were mature enough to give valid and dependable data responses.

The research also looked at the marital status of the respondents as presented on Table 4.1 below; the results show that most of the respondents, 283 (83.98%), are married while 13 (3.86%) are divorced, 16 (4.75%) are single, and 25 (7.42%) are widows/widowers.

The findings show that most of the respondents 314 (92.9%) are literate enough to give valid and dependable data while 72 (7.10%) are drivers, dock workers or technicians. The highest number of respondents, 119 (35.21%) attended secondary education, and 72 (21.3%) had GCE O'Level, while 40 (11.83%) attained diploma level. About 30 (8.88%) and 22 (6.51%) respondents attained BSc/BA and MSc/MA respectively, whereas only 2 (0.58 %) attained the highest educational level with Ph.D., and 24 (7.10%) had other qualifications. Furthermore, the results show that most of the respondents in this research live in West Coast Region (WCR) with 142 (42.14%), while 119 (35.31%) reside in Kanifing Municipality, and Banjul City harbored the least number of respondents with 76 (22.55%).

**Table 3: Socio-Demographic Characteristics of Respondents**

GENDER	FREQUENCY	PERCENTAGE (100%)
Male	239	70.71
Female	99	29.29
TOTAL	338	100
AGE DISTRIBUTION		

45-59 Years	25	7.4
60 and Above	313	92.6
TOTAL	338	100
MARITAL STATUS		
Single	16	4.75
Married	283	83.98
Widow/Widower	25	7.42
Divorce	13	3.86
TOTAL	337	100.01
EDUCATIONAL LEVEL		
WASCE	10	2.96
Secondary School Certificate	119	35.21
GCE Ordinary Level	72	21.3
GCE Advanced Level	19	5.62
Diploma	40	11.83
BSc/BA	30	8.88
MSc/MA	22	6.51
PhD	2	0.59
Others	24	7.1
TOTAL	338	100
RESIDENCE		
Banjul	76	22.55
KM	119	35.31
WCR	142	42.14
TOTAL	337	100

Source: Field Survey (2021)

The researcher addressed the objective of the study by requesting respondents to assess whether the Federated Pension Scheme has any effect on the welfare of pensioners. The results in Table 4 shows 189 (55.92%) respondents agreed that they received their pension benefits from SSHFC on time while 147 (43.5%) disagreed, and only 2 (0.59%) were undecided. This revealed that majority of the respondents received their pension benefits from SSHFC on time between six and twelve weeks from the time of completing all the required procedures. The results also showed that 180 (53.25%) of the respondents agreed that SSHFC requested the required documents from their institutions in order to process claims before they reached the age of retirement; while 131 (38.76%) of the respondents disagreed and only 27(7.99%) were undecided. This indicated that SSHFC complied with Project 59 rule number one. Regarding the third statement, respondents were asked to assess the quality of customer service delivered to them during and after their claim processing and the result showed that 276 (81.65%) respondents agreed that SSHFC treated them with dignity during and after the processing of their claims while 60 (17.75%) disagreed with the statement and only 2(0.59%) respondents could not decide on the

statement. This shows that most of the respondents received a welcoming approach during their claim processing.

On assertion four, respondents were asked to attest whether the retirement benefit package paid to them by SSHFC satisfy their needs or not. The results showed that 301 (89.05%) of respondents disagreed while 29 (8.58%) agreed with the statement and 8 (2.37%) were undecided. This indicates that majority of the respondent disagreed with the statement that the payment satisfy their needs. Concerning assertion five, respondents were asked whether their offices were formerly informed about the Project 59 that was introduced in 2015. The results showed that 286 (84.62%) responded in the negative while 16 (4.73%) agreed and 36 (10.65%) were undecided. The majority of respondents did not know anything about project 59. On statement number six, the result indicated that 307 (90.83%) disagreed with the statement that the benefit amount received from SSHFC is satisfactory, while only 25 (7.39%) agreed and 6 (1.78%) were undecided. This shows that majority of the respondent disagreed that the benefit paid by SSHFC is satisfactory and 7.39% that agreed are the respondents who retired in a high position. Regarding assertion seven, respondents were asked to assess whether the gratuity received from SSHFC has improved their welfare as pensioners. The findings indicated that 283 (83.73%) respondents disagreed while 48 (14.2%) agreed and 7 (2.07%) were undecided. This means that majority of respondents disagreed. On question eight, respondents were asked whether they are better off working than being a pensioner. The results showed that 303 (89.54%) agreed to be working than being a pensioner while 28 (44.62%) disagreed and 7 (2.07%) undecided. This means that majority agreed to be a working class than a pensioner. Concerning assertion nine, the results revealed that 231 (68.35%) disagreed with the statement that they can establish business with the gratuity paid to them, while 99 (29.29%) agreed and 8 (2.37%) were undecided. This means that majority of respondents agreed. On statement ten, the results indicated that those receiving pension through Yonna Bureau De Change 231 (71.28%) disagreed with the research statement that they are satisfied with Yonna, while 53 (61.79%) agreed and 8 (2.48%) were undecided. This means that majority of respondents receiving their pension from Yonna Bureau De Change were not satisfied. Regarding assertion eleven, the results for those receiving pension at the Bank shows that 133 (97.79%) respondents agreed that they were satisfied with the Banks, while a small number like 2 (1.47%) disagreed and 1 (0.74%) were undecided. This means that majority of those receiving their pension at the Bank were satisfied and preferred to stay with the Bank.

On statement twelve, the research investigated the need to increase the monthly pension for pensioners and the results showed that 329 (97.34%) respondents agreed with the statement that the monthly pension need to be increased after every three years, while 7 (2.07%) disagreed and 2 (0.59%) were undecided. This means that majority of respondents agreed with the monthly increment of pension after every triennial actuarial valuation which is in every three years. Regarding statement thirteen, the respondents were asked whether their monthly pension is enough to take care of their basic needs for a month. The findings showed that 327 (96.65%) disagreed with the statement that the monthly pension is enough while 8 (2.37%) agreed and 2 (0.59%) were undecided. This shows that majority of respondents cannot meet their basic needs with the monthly pension they receive from SSHFC. On assertion fourteen, respondents were asked whether SSHFC provides health care for them or not. The results revealed that 175 (51.78%) disagreed, while 156 (46.15%) were undecided and 7 (2.07%) agreed. This means that majority confirmed that SSHFC

does not provide medical facility. Concerning statement fifteen, the result further shows that 319 (94.38%) disagreed with the statement that SSHFC gave them bonus every year, while 12 (3.55%) agreed and 7(2.07%) were undecided. On assertion sixteen, since dissemination of information is part of SSHFC concern on welfare of pensioners, the researcher asked whether respondents had access to information when needed, the results showed that 191 (56.51%) agreed, while 102 (30.17%) disagreed and 45(13.3%) were undecided. This means that majority agreed that SSHFC gave out information when needed. Regarding statement seventeen, the results showed that 243 (71.89%) respondents disagreed with the statement that the pensioner’s monthly pension can be used to go on holiday in The Gambia, while 89 (26.33%) were undecided and 6 (1.77%) agreed. This means that majority of respondents disagreed.

On assertion eighteen, respondents were asked to measure the service delivered to them when claiming for benefit and the results showed that 198 (58.58%) agreed that they faced no challenges during their claim process, while 136 (40.24%) disagreed and 4 (1.18%) were undecided. This means that majority applauded SSHFC but with a margin of 62 (18.34%).Regarding statement nineteen, the results showed that 325 (96.67%) disagreed with the fact that SSHFC organises end of year party for its pensioners, while 7 (2.07%) agreed and 5 (1.48%) were undecided. This means that majority disagreed with the statement. On assertion twenty, since SSHFC needed to invest pensioners fund to get returns, therefore, the researcher asked whether the respondents were given interest after every six months or yearly on top of their monthly pension. The results showed that 320 (94.67%) disagreed, while 10 (2.96%) were undecided and 8 (2.37%) agreed. This means that majority of respondents disagreed with the statement that SSHFC paid interest. Concerning statement twenty-one, the researcher asked whether SSHFC cared for their welfare during hard times, most specially Covid-19. The results showed that 264 (78.11%) disagreed while 68 (20.12%) agreed and 6 (1.78%) were undecided. This means that majority of respondents are not very happy with SSHFC being a social protector.

In sum, the researchers asked respondents whether overall, SSHFC’s FPS had positive effect on the welfare of pensioners. The results showed that 299 (88.46%) respondents disagreed with the statement, while 31 (9.17%) agreed and 8 (2.37%) were undecided. This means that majority of respondents disagreed with the statement that SSHFC’s FPS had a positive effect on their welfare.

**Table 4: Effects of Federated Pension Scheme on the Welfare of Pensioners**

S N	Items	Strongly Disagreed Freq. (%)	Disagree d Freq. (%)	Undecide d Freq. (%)	Agreed Freq. (%)	Strongly Agreed Freq. (%)
1	Received pension benefit from SSHFC on time.	44 (13.02)	145 (42.90)	2 (0.59)	117(34.62)	30 (8.88)
2	SSHFC requested documents to process claims before retirement.	24 (7.10)	156 (46.15)	27 (7.99)	119(35.21)	12 (3.55)
3	I am treated with dignity during the process of my claim.	33 (9.76)	243 (71.89)	2 (0.59)	51 (15.09)	9 (2.66)
4	Retirement benefit package at SSHFC is very attractive.	6 (1.78)	23 (6.80)	8 (2.37)	125(36.98)	176 (52.07)



5	Offices were informed that Project 59 was to process claim at age 59	5 (1.48)	11 (3.25)	36 (10.65)	201(59.47)	85 (25.15)
6	Benefit amount received from SSHFC is satisfactory.	4 (1.18)	21 (6.21)	6 (1.78)	141(41.72)	166 (49.11)
7	Gratuity received from SSHFC improved my welfare.	3 (0.89)	45 (13.31)	7 (2.07)	95 (28.11)	188 (55.62)
8	I am better off working than receiving pension.	178 (52.66)	125 (36.98)	7 (2.07)	19 (5.62)	9 (2.66)
9	I can establish a business with gratuity received from SSHFC	2 (0.59)	97 (28.70)	8 (2.37)	131(38.76)	100 (29.59)
10	Pension benefits paid through Yonna Bureau satisfied me.	11 (5.45)	42 (20.79)	5 (2.48)	78 (38.61)	66 (32.67)
11	Pension paid through a bank satisfied me.	72 (52.94)	61 (44.85)	1 (0.74)	2 (1.47)	0
12	Pension needs to increase after every three years.	269 (79.59)	60 (17.75)	2 (0.59)	3 (0.89)	4 (1.18)
13	Monthly pension is enough to take care of me for a month.	3 (0.89)	5 (1.48)	2 (0.59)	122 (36)	205 (60.65)
14	SSHFC provided me with health care services after retirement.	4 (1.18)	3 (0.89)	156(46.15)	175(51.78)	0
15	SSHFC gives bonus to its pensioners every year.	4 (1.18)	8 (2.37)	7 (2.07)	172(50.89)	147 (43.49)
16	SSHFC gives access to information anytime needed.	19 (5.62)	172 (50.89)	45 (13.31)	86 (25.44)	16 (4.73)
17	I can use my monthly pension to go on holiday in The Gambia	2 (0.59)	4 (1.18)	89 (26.33)	243(71.89)	0
18	I faced no challenges during my claim processing	21 (6.21)	177 (52.37)	4 (1.18)	105(31.07)	31 (9.17)
19	SSHFC organises end of year party for pensioners.	2 (0.59)	5 (1.48)	5 (1.48)	90 (26.71)	235 (69.73)
20	SSHFC pays interest every six month or yearly.	1 (0.30)	7 (2.07)	10 (2.96)	110(32.54)	210 (62.13)
21	SSHFC cares for pensioners during pandemic or disaster.	10 (2.96)	58 (17.16)	6 (1.78)	118(34.91)	146(43.20)
22	Overall, FPS has a positive effect on the welfare of pensioners.	4 (1.18)	27 (7.99)	8 (2.37)	80 (23.67)	219 (64.79)
	Mean Score	32.77(11.23)	67.95(21.70)	20.14(6.02)	108.32(32.79)	93.36(28.23)

Source: Field Survey (2021)

### Test of Hypothesis

Chi-square tests are popularly used to investigate relationships between two categorical variables. Two categorical variables are statistically independent if the population conditional distributions on one of them are identical at each category of the other. The two variables are statistically dependent if the conditional distributions are not identical. In other words, two variables are statistically independent if the percentage of the population in any particular category of one variable is the same for all categories of the other variable. In this study, the strategy is to test whether welfare is associated with Federated Pension Scheme services. Therefore, under the null hypothesis (Ho), we assume there is no relationship between the two variables while under the alternative hypothesis (H1), we

assert that there is a relationship between welfare of pensioners and Federated Pension Scheme services provided by social security. Thus, we stated our hypothesis as follows:

*Ho: There is no relationship between welfare of pensioners and Federated Pension Scheme services provided by SSHFC.*

*H1: There is relationship between welfare of pensioners and services provided by SSHFC.*

Any difference between welfare and services distributions means that the null hypothesis is false and the alternative hypothesis is true. The Chi-square test results are presented in Table 5 below. At both 1% and 5% significance levels, the test result was found to be statistically significant (i.e., p-value=0.000 which is less than 0.01 and 0.05). Therefore, the null hypothesis was rejected and the study concluded that there is significant relationship between the welfare of pensioners and Federated Pension Scheme services provided by SSHFC. The same conclusion is arrived at using the likelihood ratio tests statistics as shown below on Table 5.

**Table 5: Chi-square test results**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	129.687a	9	0.000
Likelihood Ratio	95.797	9	0.000
Linear-by-Linear Association	79.588	1	0.000
N of Valid Cases	338		
a. 8 cells (50.0%) have expected count less than 5. The minimum expected count is .11.			

Source: Author's Computation

With respect to the connection between social security and welfare, the findings of the study revealed that there is significant relationship between social security services provided and the welfare of pensioners. Pension is an arrangement to provide people with an income when they are not earning a regular income from employment; therefore, timely payment of benefits and provision of health care needs to be reinforced to fulfill their purpose of establishment. The point here is that the relationship between social security and welfare of pensioners in the Gambian context is being undermined by a number of unfavorable factors including the lack of a health care provision for pensioners and a frustrating, untimely payment of a meager pension amount.

## Conclusion

The study concludes that there is a significant relationship between the Federated Pension Scheme services provided by Social Security and Housing Finance Corporation and the welfare of pensioners. The regulatory framework that governs the management of the Federated Pension Scheme needs to be reviewed to include the Project 59 so that it can be binding between SSHFC and its members, as well as the monthly pension increment and health care facility for pensioners. It was also discovered that SSHFC does not provide services on time; therefore, service time is a major challenge for pensioners in receiving their payments. It is evident from the results of the study that the monthly payment of pension has had positive effects on the lives of pensioners who retired on a high cadre. The

study concludes that the Federated Pension Scheme does not really take care of the welfare of its members on both the gratuity paid and the monthly pension. This scheme only favours those who retired on a high position and not the low income earners. The gratuity and the monthly pension that the Federated Pension Scheme provides for its members is not enough to start a business, and does not satisfy members' needs such as health care, food, clothing and rental within a month. Therefore, the research concludes that the scheme has positive effects on the lives of the pensioners that retired on a high position but not for pensioners who retired on a lower cadre.

### **Recommendations**

Based on the challenges encountered in the pension administration, the study recommends that since the primary purpose of SSHFC is to pay pension with a view to improving the welfare of pensioners, and provide housing for low income earners, Project 59 should be reinforced, which serves to build the image of the institution and restore confidence back in the members. This can be done by sending letters to all member institutions to re-inform them about the project with all that is required from them. Regarding improvement in the service delivery of the scheme, the study recommends a proper review of the service provided by Yonna Bureau De Change because the findings of the study reveal that most of the respondents are not satisfied with their service. In the same vein, it is recommended for the government to establish a pensioners' bank that will serve the purpose of the pensioners and give them opportunities to have bank facilities such as loans, timely payments of their monthly pension and, at the same time, serve as an investment avenue for the pension fund. The study investigated the level of satisfaction of the pensioners in terms of meeting basic needs with a monthly pension, and the findings reveal that most of the respondents' monthly pension does not meet their basic needs. Therefore, the study recommends an increase in their minimum monthly pension with a view to reducing poverty and marginalisation among pensioners. This will ensure that every pensioner has access to basic services and equal opportunity and can live in security and dignity.

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## **TRUSTEE SUBSTITUTION: LEGISLATIVE GAPS, DOCTRINAL CONTROVERSIES AND JURISPRUDENTIAL SOLUTIONS (I)**

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**Abstract:** *Our study aims to bring to attention a type of contract of major importance in the field of legal relations, namely the mandate, focusing on the issue of trustee substitution, with all the consequences that derive from such an operation. Thus, in the first part of the article, we shall analyze the obligation of the trustee to personally carry out the mandate and, as a derogation from this rule, the possibility of the agent to substitute another person. We shall discuss the legal nature of this operation, differentiating it from the subcontract and the assignment of contract. Then we shall review the effects it generates on the relations between the principal and the primary trustee, between the original trustee and substitute, as well as between the contracting parties and third parties, both in the case of authorized and unauthorized substitution. We shall address the multiple facets of the relationship between the principal and the substitute agent in the second part of this article, as it has caused numerous debates, mainly related to the possibility of initiating a direct action between the parties at the "extremes" of the substitution operation, and its unilateral or reciprocal character.*

**Keywords:** *mandate; trustee substitution; subcontract; contract assignment*

### **Introduction: the trustee's obligation to personally carry out the mandate**

Under the rule of the provisions of the Civil Code from 1864, doctrine (Dogaru, 2004: 552) showed that, despite the *intuitu personae* character of the mandate, the trustee is free to substitute another person in the execution of the mandate. This conclusion results from the *per a contrario* interpretation of art. 1542 of the Civil Code, which stipulated that "the trustee is liable for the one he substituted in his management." However, jurisprudence has decided that, since the commercial mandate is conferred precisely in consideration of the skills of the agent in dealing with business, the agent must personally execute the entrusted mission, unless the parties have stipulated an express clause allowing him to be substituted (Romanian Supreme Court of Justice, commercial decision no. 1245/2003, in Cucu et al., 2008: 342). The new Civil Code expressly and in detail regulates the substitution made by the trustee through the provisions of art. 2023. The current legal text develops the rules contained in the old regulation, in accordance with the evolution of doctrinal and jurisprudential concepts in this matter of replacing the trustee. Thus, paragraph (1) expresses the *intuitu personae* character of the mandate contract, establishing the rule of fulfilling it personally: "The trustee is required to fulfill the mandate personally, unless the principal has expressly authorized him to substitute another person in execution of the mandate in whole or in part."

Therefore, the principal can authorize the trustee to substitute another person for the execution of the mandate in whole or in part, but this authorization must be express. As an

exception, the legislator nevertheless admits substitution, "even in the absence of an express authorization" from the principal, in special situations, which cumulatively meet the following conditions, expressly provided by the legislator: the trustee is prevented from carrying out his mandate due to some "unforeseen circumstances", regarding which it is impossible for him to notify the principal, but which creates the presumption that the principal would have approved the substitution, had he known about them. In such situations, the need to achieve the principal's interests by carrying out the operation entrusted to the agent justifies the latter's right to resort to substitution even in the absence of an express and prior authorization from the principal, provided that the agent informs the principal "immediately" about the substitution (Civil Code art. 2023 para. 2-3).

As it was also shown in the specialized literature (Gârbovan et al., 2012: 383), the subsequent ratification of the substitution by the principal will not be necessary, since in the mentioned exceptional situations, the faculty of substitution is conferred by the law itself, provided that the conditions mentioned above are met. Therefore, the principal will not be able to evade the execution of the acts concluded by the substitute on his account, reasoning that he did not authorize the substitution. We consider that the legal text assimilates the situation regulated by para. (2) with the one in which the principal authorized the substitution, the legal consequences of the substitution being the same in the relations between the involved parties, with the additional obligation imposed by paragraph (3), namely that the agent immediately informs the principal about the substitution.

Regarding the responsibility of the agent for the acts concluded by the substitute, it differs depending on the existence or non-existence of the substitution authorization granted by the principal. Thus, "if the substitution was not authorized by the principal, the trustee is responsible for the acts of the person he substituted as if he had performed them himself" (art. 2023 para. 4 Civil Code). This means that the agent assumes responsibility towards the principal for the acts of the substitute, the principal being protected against potentially abusive or excessive acts performed by the substitute, as they are only opposable to him if they were performed within the limits of the mandate he conferred (Dogaru, 2004: 555).

Jurisprudence (Romanian Supreme Court of Justice, civil decision no. 60/1971, in Turianu, 1999: 188) has shown that the trustee must fulfill his mandate personally, without having the right to substitute someone else in the execution of the tasks conferred on him by the principal precisely in consideration of the trust he has in the person of the trustee. If, however, the trustee carries out the substitution, he will be responsible for the actions of the substituted just as he is responsible for his own actions. However, he will not be liable, in any case, for damages caused by a third party. In another case, the court (București County Court, civil decision no. 1201/1955, in Terzea, 2011: 936) showed that the right to substitution can only be exercised within the limits of the powers conferred by the mandate contract, so the trustee is responsible for how his substitute executes the mandate. Exceeding the limits of this mandate is not opposable to the principal, unless he ratifies it. However, it is undoubted that the substitution itself may entail increased risks related to the ability of the substitute to perform the tasks entrusted by the principal, which may be lower than that of the appointed trustee. It is true that, regardless of whether the substitution was authorized or not, both the trustee and his substitute have a certain liability towards the principal regarding the possible damages caused to him by not properly executing the mandate. On the other hand, however, the purpose of the principal when concluding the mandate contract is not to ensure that he will be able to recover the damages generated by

the mandate, but to choose as trustee a person who inspires confidence in his ability to perform the assigned operations in an optimal manner, so that they provide the expected benefits.

If the substitution was authorized by the principal, "the principal is only responsible for the diligence with which he chose the person who substituted him and gave him the instructions regarding the execution of the mandate" (Civil Code art. 2023 para. 5). We believe that the responsibility of the trustee will be the same in those exceptional situations provided for in para. (2) of the mentioned legal text, in which the legislator allows its substitution even in the absence of express authorization from the principal. Therefore, the provisions of the new Civil Code tie the liability of the agent in such situations to his fault, either in relation to the choice of the person of the substitute (*culpa in eligendo*), or related to his obligation to give the substitute instructions regarding the execution of the mandate. From this point of view, the new legislative regulation differs from the one established by the Civil Code of 1864, which did not impose on the trustee the obligation to train the substitute in order to carry out the entrusted tasks; it was also considered that the trustee did not exercise the necessary diligence in choosing a suitable substitute, only when the latter was a person "known to be incapable and insolvent" (Civil Code from 1864 art. 1542 para. 1.2).

The new Civil Code no longer mentions this aspect, which means that currently the diligence shown by the trustee in choosing the substitute will have to be much increased, as he may be found guilty not only in the case of the substitute's known incapacity and insolvency, but in principle, whenever the substitute does not have the same capacity as the trustee himself to execute the mandate. This is because the mission conferred by the principal must be carried out under the same conditions, which have not changed with the substitution, the substitute merely taking over the tasks of the trustee within the same limits and contractual conditions agreed by the principal with the original trustee. Thus, for example, an experienced lawyer, chosen by clients to represent them precisely by virtue of his reputation, will not be allowed to relieve himself of too many contracted lawsuits, assigning some of them to interns or to colleagues from the office who do not have the specialization or experience necessary to be able to solve the respective tasks under the same conditions of professionalism; this obligation of loyalty also results from the special provisions included in the Statute of the lawyer profession, passed by the Decision no. 64/2011 of the National Union of Bar Associations in Romania.

Some authors (Roșu, 2008: 60-61; Gidro, 2015: 90) believe that the trustee's liability for the instructions given to the substitute should only operate in the situation where the trustee is a professional who has specialized knowledge regarding the assignments received from the principal. An interesting clarification was made by the Iași Court of Appeal in a case that it solved (Iași Court of Appeal, decision no. 128/1913, in Hamangiu et al., 1926: 23). Thus, it is stated that "when the principal grants his representative the right of substitution without limiting him and without any reservation or restriction in the choice of persons, it is certain that the trustee will be able to authorize his substitute to also substitute another, because the latter, once elected, represents the first trustee as if he were actually his own substitute; all that will follow from here will be that the trustee may be declared responsible for the choice he made, either in the person of the first substitute, or in the person of the second, but it cannot be argued that the substitution was not valid and that the acts of the substitutes may be declared null and void." We consider that the substituted trustee will



have the same faculty of substitution in those exceptional circumstances, in which the conditions mentioned by the Civil Code art. 2023 para. (2) are met, when substitution is allowed by virtue of the law, even in the absence of an express authorization from the principal, respectively the original trustee.

### **Trustee substitution. The legal nature of the operation**

The problem of determining the legal nature of trustee substitution has not yet found an unequivocal explanation within the legal systems of various countries. European legislators are mostly reluctant to give an exact identification to this operation. As for doctrine, it is also divided in addressing this issue. This approach is complex, as the legal regime of agent substitution varies depending on the hypothesis taken into account. This attempt to disclose the juridical nature of agent substitution has led to the outlining of two opinions in the classic law doctrine: subcontract or assignment of contract. However, as we have shown in previous studies (Tulai, 2011a: 49-52; Tulai, 2011b: 53-56), we find it worthy of discussing a third hypothesis, that of a multiple, „sui generis” identity, since we consider the unitary identification of various cases of substitution to be inaccurate.

#### *Trustee substitution and subcontract*

Traditionally, legal doctrine links the substitution of the contractor with the notion of subcontract. The majority of authors thus assimilate the substitution of the agent to the notion of submandate. Thus, Mr. Ph. Pétel identifies in unequivocal terms the substitution of the agent with the subcontract, stating that it can be compared to the private subenterprise: "substitution of the agent is to the mandate what private subenterprise is to the private enterprise contract" (Pétel, 1994: 70). The modern doctrine is only following an older trend in this direction (Baudry-Lacantinerie, 1907: 578), which had been consecrated since the end of the 19th century- beginning of the 20th century, even if at that time there were also authors (Laurent, 1887: 487) who supported a nuanced qualification of this operation, which could be analyzed, as the case may be, either as a subcontract or as a contract assignment.

The jurisprudence was more reserved than the doctrine in approaching this subject, avoiding to clarify the issue in a categorical manner. Following the analysis of the French jurisprudence (Cass. com. 8 nov. 1983, B.T. 1984, n.556; Cass. com. 8 iul. 1986, Bull. IV, n.153; Cass. com. 10 oct. 1989, B.T. 1990, n.220; Cass. com. 19 mar. 1991, Bull.IV, n. 102), richer in this matter than the Romanian one, we find that the courts usually avoided even the use of the expressions "submandate", respectively "subagent", preferring to adopt a neutral terminology, derived from the word "substitution", which it is also used in the Civil Code. Jurisprudence avoided categorically clarifying this issue of the legal nature of agent substitution, focusing rather on the analysis of art. 1994 para. (2) of the French Civil Code [which corresponds to article 2023 para. (6) of the Romanian Civil Code], whose practical implications are more important.

An analysis of the doctrine (Mallet-Bricout, 2000) on this matter reveals, however, certain elements that bring the substitution of the trustee closer to the subcontract. First of all, the chronology of the concluded contracts corresponds to that of the whole consisting of the main contract and the subcontract, considering that the replacement of the trustee is always

carried out after the conclusion of the main mandate contract. The substitute has the task of carrying out in whole or in part the trustee's obligations towards the principal.

Secondly, the initial mandate provides the substitution with its object, the substitute having to fulfill, at least partially, the same mission as the one with which his co-contractor was charged by the principal. Thirdly, the initial mandate contract basically determines the duration and extent of the agent substitution. If the mandate contract becomes obsolete or void, this basically entails the correlative abolition of the substitution. In the same way, the main trustee cannot entrust the substitute with more obligations or rights than he himself had received; otherwise, the main trustee alone assumes this exceeding of the limits of his powers, being responsible for his own deed.

Another characteristic of the subcontract is the existence of a relationship between the extreme parties. Doctrine and jurisprudence agree in admitting the existence of a subcontract in the presence of a direct action between the extremes (main contractor and subcontractor). The substitution of the trustee does not contradict this rule, art. 2023 para. (6) of the Civil Code expressly providing for the possibility of the principal to act directly against the substitute. French doctrine (Demogue, 1933: 996) showed that there is a clear connection between the submandate qualification and the existence of the principal's direct action against the substitute.

On the other hand, a comparative analysis of the substitution of the trustee and the subcontract also reveals certain differentiation criteria between the two legal institutions. First of all, there is the question of the need for an authorization given by the main contractor for the conclusion of a subcontract. What must be determined is whether or not the main contract is an *intuitu personae* contract, since in the first case express authorization is necessary, and in the second case the lack of an express prohibition in this sense would be sufficient. As the mandate contract is a contract concluded *intuitu personae*, it would mean that the substitution of the trustee, in order to be qualified as a subcontract, could only be validly concluded with the express authorization of the principal. But what really happens in the case of agent substitution? Art. 2023 para. (2) of the Civil Code provides that the trustee can designate a third party as substitute "even in the absence of express authorization [...], if: a) unforeseen circumstances prevent him from fulfilling the mandate; b) it is impossible for him to notify the principal about these circumstances in advance; c) it can be assumed that the principal would have approved the substitution had he known the circumstances justifying it." In fact, as a rule, the substitution, even in the absence of authorization from the principal, can be carried out in a valid and lawful manner, except in particular cases where it is explicitly prohibited by law. In this spirit, the French Court of Cassation even admitted the validity of the bearer mandate and of the blank mandate (Cass. civ. February 28th 1989). However, the trustee, in accordance with para. (4) art. 2023 of the Civil Code, will have to assume responsibility for the acts performed by the substitute. We believe that another element that makes the substitution of the agent not perfectly compatible with the legal regime specific to the category of subcontracts is the liability of the initial agent towards the principal, this having specific features depending on the circumstances in which the substitution takes place, which do not always correspond to the liability of the intermediate contractor for the act of the subcontractor.

The intermediate contractor is, as a rule, responsible to the main contractor for the actions of the subcontractor. But what happens in the case of agent substitution?

The freedom of the original trustee to entrust a part of his mission to another person, even without an express authorization from the principal, does not exempt him from liability towards the principal, quite the opposite. Art. 2023 of the Civil Code clarifies this issue: "(4) If the substitution was not authorized by the principal, the trustee is responsible for the acts of the person he substituted as if he had performed them himself. (5) If the substitution was authorized, the trustee is only responsible for the diligence with which he chose the person who substituted him and gave him the instructions regarding the execution of the mandate."

Therefore, we consider that the substitution of the agent could be qualified as a subcontract only in the case where the substitution was not authorized by the principal, in which case the agent is "responsible for the acts of the person he substituted as if he had performed them himself", which corresponds to the legal regime of the intermediate contractor's liability for the act of the subcontractor. In the other cases, namely when the substitution was authorized by the principal, the main trustee is not responsible for the management of his substitute; he will answer only for his own fault in choosing the person of the substitute, as well as for the execution of the obligation to give him the instructions necessary to carry out the mandate. The liability of the main trustee in this case is based on his own fault, being therefore a liability for his own deed, not for the deed of another. Regarding the subcontract, it is governed by the principle of liability for the act of another, the intermediate contractor being held responsible for the act of the subcontractor.

As a result, we consider that the substitution of the agent implies a regime of liability of the trustee different from that of the liability of the intermediate contractor in the subcontract.

In conclusion, we believe that the substitution of the trustee does not correspond in all its aspects to the legal regime of subcontracts, appearing rather as a *sui generis* legal institution, with its own particularities, which differ depending on the concrete circumstances in which the substitution of the trustee takes place.

#### *Trustee substitution and contract assignment*

As we have shown, we consider that identifying trustee substitution as a subcontract is only justified in those cases in which substitution is neither explicitly authorized, nor forbidden by the principal. Therefore, we intend to clarify whether in other cases, which do not match the subcontract description, agent substitution could be identified as an assignment of contract. To support this approach, we have the regulations in the Romanian Civil Code, precisely articles 1315-1320, which establish a legal regime for the assignment of contract. A priori, an analogy between agent substitution and assignment of contract is not contradictory. The substitution, that is to say the replacement of a person by another, seems to determine the transfer towards the substitute of the mission that the principal initially entrusted the primary trustee with. Thus, a transfer of rights and obligations occurs, just as it does in the case of the assignment of contract. Just like in the assignment, a contract (of substitution) is concluded between the primary trustee and the substitute, with the latter being bound to perform the provisions of the original (mandate) contract in their counterparty's place. Similarly, the substitute becomes the future debtor and creditor of the principal, in which concerns the liabilities derived from the original mandate contract; the principal has got the right to file a direct action in law against the substitute, in case of a

conflict. Therefore, agent substitution could match the assignment of contract, at least in some aspects of its legal status.

However, detailed analysis of the legal regime of the two notions leads to disclosure of important differences that could exclude identifying agent substitution as assignment of contract in several cases. Hereby, we can distinguish at least two problems: the nature of the legal action that the principal can file against the substitute agent, as well as the absence of the primary trustee's discharge of duties in the case of substitution (Mallet-Bricout, 2000: 411).

The action in law that the principal can file against the substitute is, as identified by article 2023, para. (6) of the Romanian Civil Code, a direct action in law. Therefore, is it possible to identify certain cases of agent substitution as assignment of contract, knowing that a direct action in law is admitted by the legislator in all cases of agent substitution? The concepts of direct action in law and assignment of contract are mutually excluded. Assignment of contract implies the existence of a contractual bond between the assigned contractor and the assignee, even though the assignor has not yet been released from their liability towards the assigned contractor; meanwhile, direct action in law is characterized precisely by the fact that it is designed to benefit a third party, which does not have a contractual bond with the party against whom they claim. Numerous authors (Larroumet, 1968: 198; Ouedraogo, 1991: 219) reveal this contradiction between direct action in law and assignment of contract in the particular case of agent substitution. On the other hand, we must address the issue of the primary trustee's disappearing from the substitution operation. One of the essential purposes of assignment of contract is obviously that of allowing the assignor to be released from their contractual duties. In the case of agent substitution, the legislator imposes upon the primary trustee to be held liable towards the principal: "(4) If the substitution was not authorized by the principal, the trustee is responsible for the acts of the person he substituted as if he had performed them himself. (5) If the substitution was authorized, the trustee is only responsible for the diligence with which he chose the person who substituted him and gave him the instructions regarding the execution of the mandate." (article 2023, paragraphs 4-5 of the Romanian Civil Code). However, in all cases of agent substitution, the primary trustee is held, in one way or another, liable towards the principal: he is either liable for the acts of the substitute, or he is responsible for his own fault that he committed in substitution (in choosing the substitute, in supervising them, in assisting them, in being responsible towards the principal or in informing them). Therefore, since the primary trustee is held liable towards the principal, one cannot consider their release from the contract, in the manner in which this happens in the assignment of contract.

In conclusion, we consider that agent substitution cannot be identified as an assignment of contract, except maybe for the case in which personal responsibility for their own acts is imposed upon the primary trustee by the law: it is the hypothesis of the substitution authorized by the principal, in which case, the primary trustee is guilty for improperly performing their "duty of care in choosing the substitute and instructing them on performing the agency contract" (art. 2023 para. 5 Civil Code). In the case in which the principal had not authorized the substitution and the primary agent would be held liable towards the principal, along with the substitute, for performing the contract, one cannot speak of the primary agent's disappearing from the operation. However, the existing

similarities between agent substitution and assignment of contract, that have been highlighted by doctrine, are justified by the resemblance of the two legal institutions.

### **The effects of trustee substitution**

We are talking about substituting the trustee when he entrusts another person to carry out his mission, or at least a part of it. As such, the trustee himself gives a mandate to the substitute, through a new mandate contract, subsequent to the initial one. Therefore, the mechanism of substitution of the trustee implies the emergence of a mandate relationship between the initial trustee and the person chosen by him in order to carry out the respective tasks; as it was rightly pointed out in the doctrine (Pétel, 1994: 70), there is no substitution when the agent carries out his mission through a subordinate, in which case it is considered that the mandate was carried out by the agent himself, therefore he will assume full responsibility for the acts carried out towards the principal, since the principal does not have, as in the case of substitution, any direct action against the agent's subordinate.

#### *The relationship between the principal and the primary trustee*

As we have shown, the effects of the substitution with regard to the relations between the parties of the original mandate contract, more precisely the liability of the agent towards the principal, differ depending on the circumstances in which the substitution is carried out, namely whether it was authorized or not by the principal. Thus, in the case of an authorized substitution, the trustee will be relieved of responsibility for the acts carried out by the substitute, he remaining liable only for his own act, more precisely for the fault in choosing or training the substitute (art. 2023 para. 5 Civil Code). On the other hand, if the principal did not authorize the substitution, the trustee remains liable for the acts of the substitute "as if he had performed them himself" (art. 2023 para. 4 Civil Code), since he performed the substitution at his own risk, which cannot result in the reduction of his contractual responsibility.

#### *a) authorized substitution*

The authorization of substitution by the principal practically has the effect of releasing the trustee from the responsibility related to the performance of the entrusted mission: this will be transferred to the substitute, against whom the principal can take the direct action provided by the legislator (art. 2023 para. 6 Civil Code), the initial trustee remaining liable only for his own fault related to the diligence he performed in order to choose a suitable substitute and his appropriate training, which would ensure the fulfillment of the mandate under the conditions and limits agreed with the principal (art. 2023 para. 5 Civil Code). In other words, the trustee will have to choose a substitute who meets the principal's expectations in terms of the ability to carry out the mandate under conditions similar to those established by the original contract and train the substitute for this purpose. The legislator no longer limits the trustee's diligence only to choosing a substitute who is not notoriously incapable or insolvent, as established by the old Civil Code from 1864 (art. 1542 para. 1.2), which means that the trustee will be considered to have fulfilled the obligation of diligence only if the person chosen as substitute executes the mandate as well as the primary trustee. Of course, that such an assessment could also be affected by subjective factors, depending on the nature of the mission that is the subject of the mandate. It will be at the discretion of the courts to determine to what extent the trustee fulfilled with

sufficient diligence his obligation to choose a suitable substitute and train him in order to execute the mandate.

Regarding the obligation of the trustee to give the substitute "instructions regarding the execution of the mandate", the legislator does not expressly specify what it entails, but jurisprudence established that the trustee has the obligation to assist the substitute and also to supervise him in the execution of the mandate.

Thus, the obligation to assist requires providing the substitute with all the elements he owns and which are necessary for the fulfillment of the mandate under the conditions agreed with the principal; more precisely, the agent will have to make available to the substitute the instructions given by the principal, as well as the necessary information and documents or goods. Regarding the supervision obligation, it requires the trustee to ensure that the substitute complies with the instructions received with the diligence and loyalty required of any trustee, according to art. 2018 Civil Code.

As far as we are concerned, we do not consider that, in the form in which the trustee's responsibility is regulated by the Romanian legislator in the case of authorized substitution, his obligations are so extensive. In the end, the principal himself authorized the substitution and therefore the diligence in the execution of the mission is due by the substitute himself, the primary trustee only having the task to choose a person who meets the requirements of the principal, meaning that he can carry out the mandate as well as the primary agent and to communicate to this person those instructions that the principal had given in order to fulfill the mandate. We do not believe that the duty of supervision of the substitute in the effective execution of the mission rests with the trustee, since the principal himself gave credit to him, by authorizing the substitution, that he would be able to appoint another person to deal with his affairs with as much success and who will take responsibility for the operations performed on behalf of the principal.

In the doctrine, it was stated that the authorization for substitution could also be granted by the principal tacitly (Pétel, 1994: 71). Thus, it was shown that the substitution is considered implicitly authorized when the trustee is unable to carry out the mission entrusted to him, due to a material or legal impossibility, known by the principal from the very beginning. For example, it is the case of the client who gives a stock exchange order to his banker, knowing that he will not be able to execute it directly, but will have to substitute a specialized and authorized company for carrying out operations of this type. The issue is clarified by the Romanian legislator through the unequivocal provisions of art. 2023 para. (1) of the Civil Code: "the trustee is required to fulfill the mandate personally, unless the principal has expressly authorized him to substitute another person in the execution of all or part of the mandate." Therefore, the substitution, in order to be liberating for the trustee, is imperative to have been explicitly authorized by the principal.

However, the legislator regulates the possibility of substitution even in the absence of express authorization from the principal, with a liberating effect for the trustee regarding the acts of the substitute, based on the legal presumption of its authorization by the principal, had he known the circumstances justifying the substitution. However, the legislator strictly stipulates the conditions under which this legal authorization works, namely only if unforeseen circumstances intervene in the execution of the mandate, which prevent the trustee from carrying out the mandate, that he cannot communicate to the principal and that create the presumption that the principal would approved the substitution, had he known them (Civil Code art. 2023 para. 2); moreover, the trustee has the obligation

to notify the principal about the substitution as soon as this becomes possible. Therefore, the substitution which was not explicitly authorized by the principal can be carried out with a liberating effect for the trustee only if it is determined by circumstances subsequent to the conclusion of the mandate contract and which cannot be brought to the principal's attention in time, so that he can express his option regarding the substitution; if the impossibility of the agent to directly and personally carry out the mission entrusted to him is known by the principal from the moment of the authorization of the agent in this regard, we do not consider that the conclusion of the mandate contract under these conditions implies the express authorization from the principal to carry out the substitution, but in this case it would be a mandate which, from the principal's point of view, is without cause and therefore voidable, according to art. 1238 para. (1) Civil Code. Moreover, if the impossibility for the agent to carry out his mission is determined by a legal prohibition affecting him, also known by the principal, we consider that the mandate will be affected by absolute nullity, due to illegal cause (art. 1238 para. 2 Civil Code).

*b) unauthorized substitution*

Considering the *intuitu personae* character of the mandate contract, the legality of the unauthorized substitution performed by the trustee was discussed in the doctrine. The unanimous opinion is that substitution becomes illicit only when it is prohibited. Therefore, as a rule, the substitution, even in the absence of authorization from the principal, can be validly and lawfully carried out, except for particular cases where it is explicitly prohibited by law. However, the trustee, in accordance with the provisions of para. (4) art. 2023 Civil Code, will have to assume responsibility for the acts performed by the substitute. Thus, in the case of certain professional trustees, special legal regulations may provide for the prohibition of substitution, justified by the consideration of the strong *intuitu personae* character of the contract and the specifics of the mission itself, which calls for a specialized subject to carry it out.

However, if the prohibition of substitution does not derive from the law, but from the will of the principal, the question of its illegal nature will not arise; the contract through which the substitution is made will be valid, but the trustee will be held liable for the acts of his substitute "as if he had performed them himself" (art. 2023 para. 4 Civil Code). The legislator does not expressly regulate the hypothesis of the substitution prohibited by the principal, but, from the interpretation of art. 2023 Civil Code, we understand that it can be assimilated, from the point of view of its effects, to the one in which the substitution was simply not authorized by the principal, since, in order to relieve himself of the responsibility for the acts performed by the substitute, the trustee needs an express authorization of the substitution (art. 2023 para. 5 Civil Code). Otherwise, even the legislator makes it clear that the substitution will be valid even in the absence of authorization from the principal, but its effects will not consist in freeing the trustee from liability for the acts performed by the substitute, but he will be responsible for them "as if he had performed them himself" (art. 2023 para. 4 Civil Code); this liability coexists with that of the substitute who, in turn, can be held responsible towards the principal by the means of a direct action performed by the latter, based on the provisions of para. (6) art. 2023 Civil Code.

Moreover, the legislator himself regulates a situation in which the trustee can resort to unauthorized substitution, namely when "a) unforeseen circumstances prevent him from

fulfilling the mandate; b) it is impossible for him to notify the principal about these circumstances in advance; c) it can be assumed that the principal would have approved the substitution had he known the circumstances justifying it." (art. 2023 para. 2 Civil Code). Although the legislator does not expressly provide what the effects of such a substitution will be with regard to the liability of the agent towards the principal, we believe that, since the substitution, even unauthorized by the principal, who could not foresee the exceptional circumstances justifying it, is authorized by the legislator, it will be assimilated from the point of view of its effects to the substitution authorized by the principal. Therefore, it will release the trustee from liability for the acts performed by the substitute, he remaining liable only for his own fault in choosing the substitute or in instructing him regarding the execution of the mandate, according to para. (5) art. 2023 Civil Code. This is all the more so since the legal authorization of the substitution carried out under the conditions stated in para. (2) art. 2023 Civil Code is based on the presumption of the principal's will to authorize the substitution, had he known the circumstances justifying it.

*The relationship between the primary trustee and substitute*

The primary and subsequent trustees are bound by a mandate contract themselves. Therefore, the substitute will assume the usual obligations of an agent in relation to his principal, according to art. 2017-2024 Civil Code. The obligations of the substitute must be related only to the object of his mandate contract, which is not necessarily identical to that of the primary mandate contract, since the initial trustee can entrust only part of his mission to the substitute, as it happens in most cases. As far as the initial trustee is concerned, he, in turn, has the usual duties of a principal towards the substitute, as they are provided in art. 2025-2029 Civil Code, therefore owing the substitute remuneration, reimbursement of expenses and reparation of losses suffered in the execution of his mission.

*The relationship between the contracting parties and third parties*

With regard to the effects of the substitution on third parties who conclude a contract with the substitute, they will, in relation to the principal, be treated as if they had direct relations with the primary trustee, which means in the same manner as if the substitution had not taken place. However, in relation to the trustee, given that he was replaced in relations with third parties by the substitute, the third parties will not, in principle, be able to pay the trustee the money they owe, because he stepped away from the mandate in favor of the substitute. This position is also shared by French doctrine (Laurent, 1887: 553), who refers to the French jurisprudence of the time in this matter. The author shows that in the case of substitution, there are basically two principals: the main principal and the trustee who becomes a sub-principal, through the power of representation that he has given to the substitute. Therefore, which of the two principals will be nominated in the documents that the substitute concludes with third parties? This will depend on how the substitution was made.

Thus, a French court has established in a decision from 7 Dec. 1857 that if the trustee in charge of selling designates a substitute after he has made the sale, he no longer has any capacity to receive the price, therefore the payment made by the buyer to him does not extinguish the debt. This is a situation where the trustee, when contracting with a substitute, informed the latter of the main mandate, that he charged him to carry out. Therefore, the



substitute dealt with third parties on behalf of the original principal, who thus became a creditor or debtor of the third parties. However, if the agent personally commissions someone to do what he should have done, leaving him with the erroneous impression that he is working for himself, as the principal, only he will appear as the principal in the agreements that will be concluded between the sub-agent and third parties ; in this case, there is practically no substitution, the consequence being that the original trustee will himself be able to receive the payment from third parties, who, in good faith, believe that they are paying the true creditor, will thus be freed from the debt.

Therefore, in the case of the substitution carried out with the knowledge of the substitute about the mandate and about his capacity as substitute, the substitute will validly receive the payment made by the third party for the principal. In these conditions, moreover, the third party will not be able to free themselves from the obligation he has towards his creditor (the principal) by paying the original trustee, who practically gave up representing the principal in the respective operation, his place being taken by the substitute .

This solution was also reiterated in our jurisprudence. Thus, it was shown that in principle, for a payment to be liberating for the debtor, it must be made to the creditor or his representative. If, however, the trustee substitutes another person in his place for receiving the sums owed to the principal, without the latter having authorized the substitution, the payment made by the third party debtor to the substitute will be valid and liberating for him. The original agent will remain liable to the principal as if the payment had been made directly to him, and against the substitute, the principal will have a direct action for damages, according to para. (6) of art. 2023 Civil Code. The third-party debtor, by paying the substitute, will therefore be released from his debt, without suffering the consequences of the creditor's or his agent's negligence or lack of forethought in choosing the persons authorized to work on their behalf or in their place. Therefore, "when the court of first instance finds that the mandate given to a person to receive sums of money from debtors for the principal does not contain any restriction on substitutions, it rightfully decides that the amount received by the trustee for the principal through a substitute is validly received and releases the debtor" (Cas. III, dec. no. 100/1915, in Hamangiu et al., 1926: 23).

The relationship between the principal and the substitute, which has caused intense doctrinal discussions, especially regarding the direct action of the principal against the substitute and its possible "bilateralization", will be the subject of the second part of our article.

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## **RURAL WOMEN EMPOWERMENT AND DEVELOPMENT IN NIGERIA**

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**Abstract:** *The study looked at the relationship and impact of rural women empowerment and rural development in Nigeria's south-south geopolitical zone. A cross-sectional research design was used, and data was gathered through a survey of 750 people using a non-probability sampling technique. 476 of the 750 questionnaires distributed were retrieved and analyzed. Statistical Package for Social Science (SPSS) version 23 was used to analyze data collected using percentages, Pearson product moment correlation, and linear regression analysis. The study's findings revealed a significant relationship between rural women empowerment and rural development in Nigeria's south-south geopolitical zone. The study also found that rural women empowerment has a positive and statistically significant impact on rural development in Nigeria's south-south geopolitical zone. Based on these findings, the study suggests, among other things, that government empowerment policies should always take the female gender into account for necessary upliftment, as this will help to improve their status and rural development in Nigeria.*

**Keywords:** *Women empowerment, rural development, participation, education*

### **Introduction**

Rural women's empowerment and rural development are two important concepts for developing countries. A strong appreciation for women's empowerment will contribute significantly to Nigeria's rural development. Political and socioeconomic challenges in developing countries have encouraged rural communities to develop strategies to improve their status, social functions, and standard of living. According to Ojukwu (2013), as cited in Akpomuvie (2018, p. 185), women in particular engage in activities that facilitate the process of community development in an attempt to address their community problems. Obeta (2019, p. 346) pointed out that if women folk are properly empowered, adequate management of rural development projects will be ensured. Rural change cannot be effective unless rural women's activities and contributions to rural development, community project management, food availability, and household well-being are recognized. Women's empowerment entails improving the political, economic, and social conditions of rural women. Thus, rural women's empowerment entails the transformation of patriarchal society through a process of collective organization, conscientization, and enlightenment, and thus requires rural women to take collective action to reject patriarchal

attitudes and beliefs. However, rural women in Nigeria have been a distinct victim of culture, religion, class, and sex oppression/suppression by customs and traditions that promote and uphold male chauvinism since the colonial era. The term "rural women" is associated with poverty, connoting peasants, depicting and downtrodden masses living in villages and engaged in subsistence agriculture and petty trading (Ohwofasa, Olueh & Okoh, 2013). In recent decades, much has been written about women's empowerment and its impact on rural development (Ajaegbu, 1976, Ebong, 1991; Ijere, 1991; Okeke, 1995; Nina, 1997; Okpoko, 2002; Ekong, 2003; Obetta, 2009, Okoli, 2012, Ohwofasa et al., 2013; Ering, Otu & Achibong, 2014; Akpomuvie, 2018). Despite these studies, no empirical research on rural women empowerment and its impact on rural development in Nigeria exist. To close this gap, this study investigates the relationship and impact of rural women empowerment and rural development in Nigeria's south-south geopolitical zone.

#### *Objectives of the Study*

The objectives of this study are to:

examine the relationship between rural women empowerment and rural development in south-south zone of Nigeria.

investigate the impact of rural women empowerment on rural development in south-south geopolitical zone of Nigeria.

#### *Hypothesis of the Study*

The following null hypotheses were formulated for testing:

H<sub>1</sub>: There is no significant relationship between rural women empowerment and rural development in south-south geo-political zone of Nigeria.

H<sub>2</sub>: Rural women empowerment does not have a significant impact on rural development in south-south geo-political zone of Nigeria.

### **Methodology**

The study area is rural Nigeria, the most populous country on the African continent. Nigeria is divided into six geopolitical zones: the North-West, the North-Central, the North-East, the South-West, the South-East, and the South-South. Nigeria has the largest population in Africa, with over 190 million people (National Bureau of Statistics, 2014). This study used a cross-sectional design and non-probability sampling to collect data from 750 respondents in Nigeria's south-south geopolitical zone, which included traditional rulers, rural women, women self-help groups, rural men, and youths. The South-South geopolitical zone of Nigeria was chosen because it contains one of the most extreme cases of poverty and underdevelopment despite the region's tremendous natural resource endowment, particularly the Niger Delta region, from which the Nigerian government has extracted oil for more than three decades. The structured questionnaire was used as the research instrument in this study. The measurement items were rated on a 5-point likert scale, which ranks responses from (1) strongly agree to (5) strongly disagree. The questionnaire was validated by experts from the University of Calabar's Department of Sociology. A pilot study was conducted on 50 rural women in Cross-Rivers and Delta States who participated in the study over a three-week period to determine the level of

reliability. The Cronbach's Alpha coefficient was used to determine the instrument's internal consistency.

## **Review of Related Literature**

### *Rural Development*

Some believe that the concept of development originated in Nigeria during the colonial era. Others believe it began in traditional societies, when people engaged in self-help projects to provide social amenities such as roads, village halls and squares, build bridges across streams, and build markets (Obianigwe, 1999; Onyishi, 2000; Ugwu, 2003). Development issues occupy an important position in the minds of policymakers, development experts, and scholars, particularly as they affect Third World countries, Ering et al (2014) write. It's no surprise that the concept of development has been given numerous meanings and interpretations. Regardless of the various definitions, the meaning of development has evolved from a narrow conceptualization with economic growth expressed in aggregate economic indicators such as Gross Domestic Product (GDP) or per capita income to a more broad-based conceptualization as a multi-dimensional process involving changes in structures, attitudes, and institutions as well as the acceleration of economic growth, the reduction of inequality, and the eradication of absolute poverty.

According to Ugwu (2003, p. 133), the concept of development includes not only economic, social, and political changes, but a broad and all-encompassing social transformation." It denotes the entirety of societal advancement, which, of course, begins with man himself. Development entails structuring society in such a way that the quality of life and psychological needs of members of any given rural area are improved. The term rural has been technically defined as an area of underdevelopment, poverty, and a small population in all transitional economies around the world, including Nigeria. Given the extent of policies, attention, care management, and general development inconsistencies in the rural area, rural Nigeria should have its own enclopedum (Obianigwe, 1999; Ugwu, 2003, and Mukoro, 2019). Rural development in Nigeria received a greater impetus during the colonial era due to the following ways:

Since the implementation of indirect rule, district offices have made extensive use of Warrant Chiefs, Obas, and Emirs to mobilize the people for self-help projects.

In the 1930s, taxation was introduced, which led to rural communities refusing to provide communal labor for public works. People expected the government to provide all social amenities because they paid taxes to the government.

The 1955 Local Government Law, on the other hand, empowered the local government to assume full responsibility for rural development within their area of authority. This legislative provision empowered District Officers to champion rural development efforts in their districts. As a result, the government provides matching grants and technical assistance to communities that have begun self-help projects. Rural development has since become a shared responsibility of the people and the government (Okeke, 1998). The definition of rural development has evolved over time to reflect current realities. Rural development, according to Roger and Whiting (1976), entails not only providing jobs and increased incomes for rural people, but also improving the quality of rural living through increased and improved community services. Rural development, to Olayinde (1979) is a process in which concerted efforts are made in order to facilitate significant increases in

rural resource productivity with the overall goals of enhancing rural incomes and increasing employment opportunities in rural communities. According to Ering et al. (2014), rural development is defined as strategies and policies aimed at improving the economic and social lives of a specific group of people – rural poor. Rural development is defined in this study as strategic policies aimed at improving the economic well-being and quality of life of people living in relatively isolated and separately populated areas.

In a nutshell, rural development is the overall development of the rural or village community through the efforts of the people themselves." It is the active inspiration, participation, and involvement of rural people in the development planning and implementation processes and programs (Basu, 2012). Efforts to develop rural areas have been pursued in Nigeria since colonial times." The concern has been to transform the predominantly agrarian society in order to achieve a common set of development goals based on the people's capacities and needs. Policies aimed at improving rural areas have been implemented and pursued by various governments (Federal, State, and Local) since the 1960s. Today's rural areas in Nigeria are characterized by depression, poverty, degradation, chronic disease, deprivation, and hunger. In most rural areas of Nigeria, as in other rural settings in developing countries, basic infrastructure, if it exists at all, is insufficient for meaningful development.

Governments at various levels in Nigeria implemented numerous policies and programs to improve the living standards of rural dwellers, such as Operation Feed the Nation (OFN) in 1967; River Basins and Rural Development Authorities (RBRDA) in 1978; Green Revolution (GR) in 1980; the Directorate for Food, Roads, and Rural Infrastructure (DFRRI) in 1985; Better Life for Rural Women (BLRW) in 1986; The Poverty Alleviation Programme (PAP) in 1999 and 2011; N- The primary goals of these development policies and programs were to increase rural productivity and income. They all failed, however, because they were largely inherent and uncoordinated, as a result of a lack of a culture of continuity in government policies and programs, a lack of political will, and a high level of corruption (Ering et al., 2014; Mukoro, 2020).

### *Women Empowerment*

Throughout human history, rural women's empowerment has been a central concern and endeavor in countries all over the world. This issue has recently become more pressing than ever. Empowerment is described as a multifaceted, multidimensional, and multilayered concept (Vaid & Kumar, 2015). Mandal (2015), on the other hand, defined empowerment as a multidimensional concept and approach that encompasses the construction of social relations in a specific cultural context. Each dimension of empowerment is described in terms of psychological, cultural, social, economic, organizational, political, and institutional aspects. The concept of women's empowerment was first introduced at the International Women's Conference in Nairobi in 1985. Thus, empowerment is more than a concept that can be defined using some universally accepted parameter. It is not something that could be given to those who we believe is in need in the form of a capsule. Empowerment is a process that includes the following components: equal access to opportunities for utilizing society's resources, prohibition of gender discrimination in thought and practice, freedom from violence, economic independence, participation in all decision-making bodies, and freedom of choice in personal matters. As a result, empowerment is defined as the result of a person's financially, socially, and

emotionally strong status; it leads to happiness and satisfaction among a group of people" (Goel & Sah, 2015). This backs up Okpoko's (2000) assertion, cited in Obetta (2009), that "empowerment implies that the person or group of people being empowered has hitherto lacked power or authority due to circumstances, either by denial or fault. Moving from a position of powerlessness to one of power or authority is thus defined as empowerment. Women's empowerment is defined as a process in which women gain a greater share of control over resources – material, human, and intellectual resources such as knowledge, information, and ideas, as well as financial resources such as money, access to money, and control over decision-making in the home, community, society, and nation (Vaid & Kumar, 2015). Mandal (2015) defines women empowerment as the distribution of social power and control of resources in favor of women, particularly rural women. Women's empowerment is defined as creating an environment in which women can make independent decisions about their personal development while also shining as equals in society (Khatai 2015). According to Enenuo, 2001, as cited in Obett, (2009), women empowerment entails the improvement of women's political, economic, and social conditions. According to Maitra (2015), women empowerment entails certain basic factors such as women's sense of worth; their right to control their own lives, both within and outside the family premises; and their ability to influence the direction of social change in order to create a just social and economic order at regional, national, and international levels." In the context of this study, we define women's empowerment as a process by which women take ownership and control of their lives through the articulation of their own aspirations and change strategies, as well as the expansion of choice as women's are closely linked to their socially defined gender roles, responsibilities, and social structure.

### *Rural Women in Nigeria*

Rural women in Nigeria are extremely poor, with the majority of them living below the poverty line. They rely primarily on agriculture, which is frequently shifting cultivation, which is both unscientific and uneconomic. Also, because of floods and other natural disasters, others who live in the plains do not get as many crops. This places them in deep debt with the money lenders. The majority of rural women in Nigeria are illiterate and unaware of global development. They live in dense forests, hilly regions, deep villages, and even mountains with limited access to transportation. As a result, they are cut off from urban areas, hampering their material development. Female infanticide, child marriage, and polyandry are all common problems in rural Nigeria. They are still far from modern concepts of sanitation and health care; they rely on magicians to cure them and use indigenous medicine. As a result, many of them become victims of diseases such as malaria, small pox, chicken pox, forest fever, skin diseases, typhoid, Lassa fever, and others. Furthermore, some rural women in Nigeria spent a large portion of their income on alcoholic beverages, which are harmful to their health. Furthermore, the majority of them does not have safe drinking water and rarely take baths, making them susceptible to disease and health hazards.

Over the years, complex issues for debate about women have included the contradictions inherent in African patriarchal social structures and the context in which these are detrimental to women gaining social status and prestige (Akpomuvie, 2018). The second issue is the impact of exogeneous cultures on African social structures, particularly gender relations. This backs up Modo's (2016) assertion, cited in Akpomuvie (2018), that Africans

have their cultures which women are constantly expected to uphold in order for the established social structure to continue undisturbed, and that a woman is believed to be very close to nature and is thus expected to uphold the norms and values of her group in order that natural forces and ancestral spirits may always look kindly to the group's request. This is one of the impediments to women's empowerment and development in most parts of Africa, particularly in rural Nigeria. According to Chizea and Njoku (1991), women are the building blocks upon which the foundations of happy homes and families are built." Without a doubt, the family is the foundation upon which rural and urban communities are built. Communities, in turn, build the nation. As a result, if the building block, women, are poor, ignorant, and unmotivated, the nation is likely to be poor, ignorant, and unmotivated as well. For, how can any nation rise above its mothers' collective ignorance? It cannot because women, particularly rural women, are the first teachers of societal ethics in their natural role as mothers and through the enormous influence they have on their children's formative years. As a result, a society is as ethical or unethical as its motherhood.

The relative roles of men and women in Nigerian culture are determined, and it is novel to break through this artificial barrier. Women and men are thus cultural and environmental creatures. In many societies, men are accepted as the seeker and breadwinner, full of activity, whereas women are seen as passive, homebound, and always yielding to men's advances and opportunities, always willing to accept men's dictates. Women are traditionally docile, subservient, and powerless as a result of this. Many cultural settings in Nigeria regulate and restrict the activities of women, particularly rural women, during their menstruation periods (Modo, 2016), as cited in Akpomuvie (2018), narrative had it that in some homes, women are confined to their rooms and are forbidden to cook food throughout the period because they were considered impure and polluted. According to Aisuebeogun, as cited in Ohwofasa et al. (2013), women are poorer than men in Nigeria because they face unequal economic opportunities due to a lack of access to investible finance, technology, and their deliberate removal from decision-making positions. Women are discriminated against in the labor market, according to research. Cultural norms are cited as one of the major drivers of the gender labor gap in developing countries, particularly Nigeria. As a result, cultural norms limit not only women's time available for productive activities, but also the types of economic activities that women can engage in.

#### *Women Discrimination and Underdevelopment*

It is pertinent to consider some aspects of the global marginalization of women's status based on United Nations (UN) 2008 documentation cited in Agrawal (2015). Among the findings are:

**Agriculture:** Women produce roughly half of the world's food, but they have little land, have difficulty obtaining credit, the agricultural activities generally expected of women are labor-intensive, and rural women generally do not benefit from new technologies. Their wages are generally lower because it is assumed that women's labor is less efficient than men's. Women do not have equal rights to land ownership, particularly in developing countries where women do the majority of the food production, processing, storage, and preparation. Women perform three-quarters of all agricultural work in Africa. They play vital roles in the production of food for the household, in post-harvest activities, in livestock husbandry and in marketing of farm produce (Ohwofasa *et al.*, 2013).



**Domestic Work:** In addition to assisting the men in many farm operations, rural women are responsible for all household chores. Unpaid domestic work is considered to be women's work. Despite its importance, it is unpaid, undervalued, and unrecognized work. Nonetheless, women make enormous contributions to society in this regard.

**Inequality in Pay:** Women earn only two-thirds of what men earn and less than three-quarters of what men do in similar jobs around the world. Humans constitute one-third of the world's official labor force, but they are concentrated in low-wage jobs and are more susceptible to unemployment than men.

**Women in the Informal Sector:** Without legal protection or security, women rely on the informal sector for a living. Women made up a large proportion of food vendors in third-world countries: 94 percent in Nigeria, 80 percent in Thailand, and 63 percent in the Philippines.

**Health:** Women provide more health care than all other health care services combined, and they have benefited greatly from a new global shift in priorities toward disease prevention and health promotion.

**Political Affairs:** Women continue to be under-represented in their countries' decision-making bodies due to a lack of education, lack of confidence, and increased workload.

**Education:** Women continue to outnumber men among the world's illiterates by 3:2 ratios, but an increase in school enrollment is closing the gender education gap.

## **Dimensions of Empowerment for Rural Women**

### *Education Empowerment*

Educate a man, and you educate one person; educate a woman, and you educate the entire nation, wrote Mahatma Gandhi. This thought is more relevant today than ever before. Women today receive the best education possible; gone are the days when even going to school was a struggle. Although urban women have many advantages, their rural counterparts continue to struggle. Her main issues are still a lack of education and a lack of support (Bhonde, 2015). According to Singh (2015), women's empowerment must begin with their participation in various spheres of life. In this regard, education is a significant impediment. Rural women must be educated about their rights and privileges in a modern society in order to be empowered. It is education which can bring about awareness in them related to their social status, injustice and differentiation meted out to them.

Education will provide rural women with a sense of belonging in society. According to Mandal (2015), empowerment of rural women through education will result in: (1) self-esteem and self-confidence of women, (2) a positive image of women by recognizing their contribution to society, polity, and economy, (3) ability to think critically, (4) decision-making abilities and action through collective process, (5) choices in areas such as education, employment, and health, (6) equal participation in development process, and (7) knowledge and skill for economic independence and (8) access to legal literary and information relating to their rights. Furthermore, Adebukola, 2001, as cited in Obetta (2009), stated that when a woman is professionally empowered, she will use her empowerment in a positive way, and being a mistress in her profession, she will not be deprived of the right to practice in order to benefit the nation. To Obetta (2009), a mother's level of education has a positive effect not only on the development of her children, but also on their health, education, mortality, and pre-school cognitive ability.

### *Economic Empowerment*

Economic empowerment, as a layperson understands it, is the process of making an individual economically self-sufficient by providing him or her with some type of vocational training. It also entails instilling in them the ability to make economic decisions affecting the family and the community as a whole. Economic empowerment of rural women, according to Agarwalla (2015), means making rural women capable of participating in various economic activities so that they can earn money and become economically strong." Women cannot participate in decision-making in the family, community, or nation without economic empowerment. Women's status in society is inextricably linked to their socioeconomic circumstances.

According to Okojie (1999), as cited by Obeta (2009), the most effective way to reduce poverty is to expand the opportunities through which the poor can do more for themselves – economically, the task is to help the poor (rural women) gain their rightful access to productive resources and appropriate knowledge for their use. It necessitates addressing inequalities in the distribution of productive assets directly, namely by redistributing land and consciously relocating finance to meet the needs of poor borrowers, particularly rural women. Economic empowerment is essential for breaking the cycle of gender inequality. In order to economically empower rural women, it is necessary to address women's limited access to economic resources as well as their inability to make economic decisions that will improve their well-being and that of their families. It should be noted that when rural women participate in production activities, poverty decreases and economic growth increases, both of which benefit society as a whole. On the other hand, if rural women are not economically empowered, it has a significant negative impact on their children's education and health.

### *Socio-Cultural Empowerment*

Obeta (2009) quotes the United Nations as saying; socio-cultural empowerment requires that equality be built into all forms of human resource development from birth onwards. It is a direct challenge to patriarchy, which is prevalent in most societies." Rural women are educated on social benefits such as awareness of existing social problems in society, good recognition and image in the family and community, role in making important family decisions, plan and promote better education for their children, and care for the health of the elderly and children, to name a few. Rural women's social empowerment allows them to serve the community by fighting for basic social amenities and welfare needs such as safe drinking water, street light, public sanitation and chance to help the weaker people like disable and the aged. As a result, "social and cultural empowerment of rural women through the removal of oppressive social structures will restore the dignity of womanhood and enhance self-image; such a situation will undoubtedly breed mutual respect and love between the sexes and result in happier families" (Okeke, 1995 cited in Obeta, 2009).

### *Political Empowerment*

Superiority and dominance are reinforced by political and legal structures. Men typically hold the majority of political power. Village councils have traditionally been made up entirely of men. Men and women rarely sit together in most rural communities to discuss village issues. Women leaders are only invited when women's issues are being discussed. This has progressed to the present day, when few women hold elective or appointive

positions in most countries' governments. Obetta (2009) cites Okojie (1999). Therefore, the empowerment of women as political and community leaders at the grassroots, national, and international levels is an essential foundation for advancing all women's issues. Political empowerment is essential for rural women seeking a voice in global economic affairs; even at the household level, women should be involved in family decision-making (Sadda, 1995 cited in Obetta, 2009).

#### *Rural Women Empowerment and Rural Development*

The development of a country is a choice made by its people, who live in either urban or rural areas. Individuals shape society and determine its progress and performance. In terms of economic, political, and social development, urban and rural areas are two sides of the same coin. While the urban sector has seen phenomenal growth and development as a result of Nigeria's post-independence industrialization, the rural sector has seen little corporate growth. Any country's economic and sociopolitical development is heavily reliant on the development of rural areas and the standard of living of its rural population. Rural women are an important part of society (Agwarwalla, 2015). No society can develop and prosper unless its women are economically and socially empowered. According to Mandal (2015), empowering women is a prerequisite for creating a good nation. Women's empowerment ensures the stability of society. Rural women's empowerment is critical because their ideas and value systems will lead to the development of a good family, community, society, and, ultimately, a good nation. She went on to say that women's empowerment and equal participation in all spheres of society are fundamental for achieving equality, peace, and development (Mandal, 2015).

Women's empowerment is now more than ever linked to rural development. In Nigeria, institutions and individuals promoting rural development see women's empowerment as a strategic development that can hasten the rural development process (Obianigwe, 1999; Ugwu, 2003; Obetta, 2009; Ering et al., 2014; Ayevbomwan, Popoola & Adeoti, 2016). In accordance with the contention that women constitute more than half of the world's human resources and are critical to a society's economic and social well-being, development cannot be fully realized without their participation; Mrs. Mariam Babangida introduced the Better Life for Rural Women program in 1986. The goal was to change the fortunes of rural poor women and improve their well-being, while also sustaining the economy through their activities. During Mariam Abacha's administration, the Better Life for Rural Women program was renamed Family Support Programme, but the aims and concerns remained the same. Despite good intentions and resources invested in the program, it proved to be a colossal failure. This situation created an urgent need to integrate the country's rural areas into the mainstream of national development. The program served the needs of wealthy urban women rather than the rural women for whom it was intended. It evolved into "Better Life for Urban Women. Recognizing the importance of fully participating in community development, rural women have formed self-help groups (SHFs). It is a role they have chosen to help shape their future. In 1988, the Ezinne Women Self-Help Association of Ohom-Orba in Enugu state provided portable drinking water for the entire Ohom community," for example (Obetta, 2009).

It is important to note at this point that the formation of self-help groups and active participation of rural families in the process of planning and implementing community projects would aid in the development of harmony and unity among community members

regardless of caste or economic diversity. In such cases, communities provide voluntary services for rural development using various innovative approaches and manage development programs more economically. As a result, motivating and training target groups to develop local or rural leadership will be critical to poverty alleviation and sustainable development in Nigeria. Obetta (2009) concludes that once the empowerment of community members (particularly women) is enhanced, the government and donor agencies will cease to see themselves as providers and will instead act as facilitators. Agrawal (2015) posits that rural development symbolizes rural industrialization. Rural industrialization is the most effective way to address the twin problems of rural women's unemployment and poverty. The development of rural industrialization is hampered by major challenges such as a lack of credit, the use of obsolete technology, machinery, and equipment, and insufficient infrastructural facilities. Solving these issues is critical for developing rural industries in any country, particularly Nigeria.

The socioeconomic challenges in third-world countries have encouraged various rural communities to develop strategies to improve their socioeconomic conditions. According to Ojukwu (2013), as cited in Akpomuvie (2018), women in particular engage in activities that facilitate the process of rural development in an attempt to address their community problems. He stated that traditionally, there was a perception that rural development was a male activity, but the history of development efforts in most developing countries has shown that rural development has always existed with women leading the way. Furthermore, according to Akpomuvie (2018), prior to the development of formal social welfare systems in West Africa, women voluntary organizations played extensive roles in caring for the sick, poor, and disabled in Nigeria. They went on to describe how women's organizations such as Umuade and the married wife associations of various village groups in Nigeria's eastern region organized various activities for the welfare of members of their natal and marital homes, in addition to raising funds for rural development. Ojukwu (2013), as cited in Akpomuvie (2018; Ekele, Zubiaru, Ayorinde, & Abdulwaheed, 2018), explained that the reason why women in Igboland in Nigeria hold 'August Meetings' every year was to enhance women's contribution to rural community development. In fact, the gatherings provide women with opportunities to become stakeholders in their rural community projects, ensuring their trust in the community and its activities.

## Data Analysis and Results

**Table 1: Reliability Statistics of Variable**

Scale	No. of Items	Cronbach's Alpha
Rural women empowerment	9	0.734
Rural development	11	0.718

Source: Researchers' computation, 2021

The results showed that the coefficients of 0.734 and 0.718 met the general recommended level of 0.70 for the research indicators (Cronbach, 1951). As a result, the findings demonstrated that the study's instrument was trustworthy.

Model specification: The model for this study has the following mathematical functions:

$$RD = F(RWE)$$

Econometrically, the model was specified as:

$$RD = \beta_0 + \beta_1 RWE + et$$

Where: RD = Rural Development

RWE = Rural Women empowerment

$\beta_0$  = Intercept

$\beta_1$  = Coefficient and appriori signs of the independent variable

et = Error term

From the above the appropri expectation of the model was  $\beta_0 < 0$

Data collected were analyzed using simple percentage, Spearman's moment correlation coefficient and liner regression analysis with the aid of statistical package for social science (SPSS) version 23.

### Research Results

To achieve the study's objectives, 750 questionnaires are distributed across Nigeria's South-South geopolitical zone to traditional rulers, rural women, women self-help groups, rural men, and youths. As shown in the table below, 476 of the 750 copies of questionnaires distributed were retrieved and analyzed, yielding a response rate of 63.5 percent.

**Table 2: Distribution of Questionnaire and Response Rate**

S/N	South-South States	Questionnaire	Questionnaire retrieved	Percentage (%)
1	Cross-Rivers	125	97	12.9
2	Delta	125	93	12.4
3	Akwa-Ibom	125	81	10.8
4	Rivers	125	51	6.8
5	Edo	125	74	9.9
6	Bayelsa	125	80	10.7
	Total	750	476	63.5

Source: Researchers' Field work, 2021

The distribution of questionnaires and response rates is shown in Table 2. According to the table 97(12.9 percent) of all responses came from Cross-Rivers State; this implies that the majority of respondents are from Cross-Rivers, followed by Delta.

**Table 3: Demographic Characteristics of Respondents**

Variables	Item	Frequency	Percentage (%)
Gender	Male	171	35.9
	Female	305	64.1
	Total	476	100.0
Age	15-24years	128	26.9
	25-34 years	169	35.5
	35-49 years	103	21.6
	50 years and above	76	16.0
	Total	476	100
Marital Status	Single	113	23.7
	Married	207	43.5
	Divorced	63	13.2
	Widowed	93	19.5
	Total	476	100.0
Education	No Education	117	24.6

	Complete primary	95	20.0
	Incomplete secondary	66	13.9
	Complete secondary	98	20.5
	Higher	100	21.0
	Total	470	100.0
Employment status	Unemployed	188	39.5
	Skilled & unskilled	90	18.9
	Agric & Allied	145	30.5
	Service	53	11.1
	Total		100.0
Literacy	Cannot read at all	223	46.8
	Able to read only parts of a sentence	81	17.0
	Able to read a whole sentence	172	36.2
	Total	476	100.0

Source: Researchers' fieldwork, 2021

The frequency distribution of respondents by gender, age, marital status, level of education, employment status, and literacy is shown in Table 3. According to the table, 305 (or 64.1 percent) of the total respondents are men. This implies that female respondents outnumber male respondents. Furthermore, the table shows that the majority (35.5 percent) are between the ages of 25 and 34. The frequency distribution of respondents by marital status revealed that the majority of respondents are married. According to the table, 207 (43.5 percent) of all respondents are married, while only 63 (13.2 percent) are divorced. The table also shows that the vast majority of respondents (24.6 percent) have no formal education. The vast majority of those polled are unemployed. This represented 39.5 percent of all respondents; higher proportion of respondents. A higher proportion of respondents are illiterate because they cannot read at all, while 36.2 percent can read a full sentence. These findings are consistent with previous research (Akinwade, 2013, Ayebuomwan et al., 2016).

**Table 4: Relationship between Rural Women Empowerment and Rural Development in South-South Geo-political zone of Nigeria**

Correlation Coefficient			
		Rural women empowerment	Rural development
Rural women empowerment	Pearson Correlation	1	0.754
	Sig. (2-tailed)		0.000
	N	476	476
Rural development	Pearson correlation	0.754	1
	Sig. (2-tailed)	0.00	
	N	476	476

\*\*Correlation is significant at 0.01 levels (2-tailed)

Source: SPSS version 23, 2021

Table 4 depicts the relationship between rural women empowerment and rural development in Nigeria's south-south geopolitical zone. Rural women empowerment and rural development have a significant positive high correlation ( $r=0.754$ ,  $n = 476$ ,  $p = 0.01$ ). This implies that rural women's empowerment is strongly linked to rural development in Nigeria's south-south geopolitical zone. The null hypothesis is thus rejected.

Linear Regression Analysis

**Table 5: Model Summary<sup>b</sup>**

Model	R	R <sup>2</sup>	R <sup>2</sup>	Std. Error of the Estimate
1	.67 <sup>a</sup>	.709	.686	21.640

Dependent variable: Rural development  
 Predictors: (constant): Rural women empowerment  
 Source: SPSS version 23, 2021

Table ANOVA<sup>a</sup>

Model	Sum of square	Df	Mean	F.Sat.	Sig.	Remark
Regression	8.472	3	3.651	17.803	0.005 <sup>b</sup>	Sig.
Residual	3.556	470	0.223			
Total	12.028	473				

Predictors: (constant):Rural women empowerment Dependent variable: Rural development  
 Source: SPSS version 23, 2021

According to the linear regression results, rural women empowerment accounts for 70.9 percent of the variability in rural development in Nigeria's South-South geopolitical zone. The F statistic of 17.803 indicates that the model is statistically significant at the 0.05 level. The null hypothesis is thus rejected. It is possible to conclude that rural women empowerment has a significant impact on rural development in rural Nigeria.

**Discussion of Findings**

The study's findings revealed that rural women's empowerment has a positive and strong relationship with rural development in Nigeria's South-South geopolitical zone. This finding is consistent with previous research (Obetta, 2009; Ering et al., 2014; Ayeebuomwan et al., 2014). This finding is also consistent with the views of Goel and Soh (2015) and Akpomuvie (2018), who believe that rural women empowerment facilitates the rural development process. Furthermore, according to the findings of a linear regression analysis, rural women empowerment explains 70.9 percent of the variable in rural development in Nigeria's South-South geopolitical zone. Thus, the study found that empowering rural women has a positive and statistically significant impact on rural development. Previous findings by Ijere (1991), Okeke (1995), Obetta (2009), Ojukwu (2013), Ayeebuomwan et al. (2006), and Akpomuvie (2006) all support this (2018). This finding is also consistent with Okojie's (1999) views, as cited in Obetta (2009), that "rural women's empowerment is a means of strengthening women's participation in all aspects of a nation's economic, social, and political life, which facilitates rural and national development.

As a result, during the empowerment process, women assume their own identity, value themselves, increase their self-confidence and self-esteem, and cross the threshold of fear of feeling powerless (independent Commission on population and quality of life, 1996 cited in Obetta, 2009). The core of rural women empowerment framework is the argument that women's development can be viewed through five levels of equity: welfare, access, conscientization, participation and control. Overall, control is the highest level of equality

and empowerment because it involves equal control and management of the community's systems by women" (UNICEF, 1993 cited in Obetta, 2009).

### Conclusion and Recommendations

It is clear from the preceding discussion that rural women empowerment has a strong and positive relationship with rural development, and that rural women empowerment has a positive impact on rural development in Nigeria's South-South geopolitical zone, implying that rural women empowerment is a precursor to rural development globally. We conclude that rural women empowerment has a significant positive influence on rural development based on the findings of this study. We make the following policy recommendations based on the study's findings and conclusions:

Nigerian government policy should always consider the female gender for necessary upliftment, as this will help to improve their status and rural development in rural Nigeria. Across the country, there is an urgent need for rural development and self-employment training institutes.

The Nigerian government should support and encourage adult education for women, particularly rural women, at all levels.

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## **THE PRUDENCE OF ADMINISTRATIVE JUDGES IN APPLYING E-GOVERNMENT INFORMATION TECHNOLOGY**

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**Abstract:** *This study analyzes digital evidence in the judicial process. The application of information technology (e-government) is a must for state administrators, both the judiciary, the legislature, especially the executive. In resolving state administrative disputes, digital evidence is also often used. This requires judges to have the ability to examine and analyze a case that has a digital element. Preparation of the Supreme Court to respond to developments in digitalization of electronic services (e-government), namely the Supreme Court has issued PERMA Number 1 of 2019 concerning Electronic Administration of Cases and Trials in Courts. This time, the E-Court is a form of the Supreme Court's seriousness in reforming the Supreme Court in the field of information technology in the justice system. Efforts that can be made by Administrative Court Judges in the digital era, Administrative Judges must pay attention to the e-government system as a whole, for example Online Single Submission (OSS) licensing, because licensing now involves an integrated online system, which involves elements of regional government, provincial government and government center. how to upload data, the possibility of an error in the system, what is uploaded, how the system can reject and accept data. It is these things that allow administrative judges to involve Web experts. Digital Web forensic experts are needed in proving cases at the Administrative Court, because in my opinion it is almost impossible for an administrative judge to have good and correct knowledge of digital forensics. Web expert witnesses will shed light on an administrative case, making it easier for State Administrative judges to make decisions. The Supreme Court should hold education and training regarding online licensing, online registration, online validation carried out by the executive, and administrative judges should not hesitate to present web expert witnesses to explain an administrative case.*

**Keywords:** *Prudence, Judge, Information Technology, E-Government.*

### **Introduction**

Indonesia is currently in the era of legal development, especially the development of digital law which is currently being developed rapidly, this is what I, as a writer, believe sooner or later will change the way of life, mindset and way of working. According to a journal writer, entitled: Development of Indonesian Law Regarding Information and Communication Technology, By: Renny N.S. Koloay, according to the author in the 1990s only a few people had heard of e-mail and the Internet, then 10 years later these

technologies have become institutionalized and widely known. This is part of global development (Koloay, 2016). Development is a set of human endeavors to direct social and cultural change in accordance with the goals of national and state life, namely achieving growth in civilization, social and cultural life on the basis of the targets that have been implemented (Fuadi, 2009). Current technological developments are part of the ongoing Industrial Revolution. The digital era that is currently developing rapidly will bring us to the Industrial Revolution 4.0. The relationship between the Industrial Revolution 4.0 and the governance system in Indonesia is clearly very close, because in the development of the Industrial Revolution 4.0, the application of information technology (e-government) is a must for state administrators, both the judiciary, the legislature, especially the executive. As a manifestation of the government's seriousness in supporting the realization of e-government, the government has passed laws and regulations related to information technology, including Law No. 11 of 2008 concerning Information and Electronic Transactions (UU ITE); Regulation of the Minister of Administrative Reform and Bureaucratic Reform (MenpanRB) no. 06 of 2011 concerning Electronic Service Manuscripts (TNDE); and Regulation of the President of the Republic of Indonesia No.95 of 2018 concerning Electronic-Based Government Systems (SPBE). From a judicial perspective, the Supreme Court itself has seriously prepared for a New Era of Information Technology-Based Modern Justice. With the Birth of Perma (MA regulation) Number 3/2018 concerning Administration of Cases in Courts Electronically which has provided a legal umbrella for the implementation of e-court applications. Next, the Supreme Court issued Supreme Court Regulation Number 1 of 2019 concerning Electronic Administration of Cases and Trials in Courts. This time the E-Court is a form of reform of the Supreme Court of the Republic of Indonesia in the field of information technology in the justice system (Robby & Tarwini, 2019).

At the legislative level, the DPR RI is currently seriously preparing various Prolegnas to prepare 2 major programs, namely the Plan to Ratify the ASEAN Agreement on Trade through Electronic Systems and the Bill on Amendments to Law Number 11 of 2008 concerning Information and Electronic Transactions (ITE). With the issuance of these regulations and laws, especially Presidential Decree No. 95 of 2018 concerning SPBE, this proves that currently all elements of our government are serious about realizing effective and efficient governance by utilizing information technology (e-government) as a whole. The application of e-government will later be interconnected in a government administration system and in the delivery of public services in a government agency.

The author makes an example as follows, there is an applicant at the Land Office wanting to return the name of the certificate at the Land Office. After the ASN at the service counter of the Land Office checked the application files in their computerized system, it turned out that the applicant's requirements were lacking. The lacking condition is that the applicant does not have an E-KTP. Then the Land Office service counter officer advises applicants for E-KTP first. This is what I mean by the application of interconnected e-government in a government administration system. The purpose of this e-government The point is that the process of public services from state administrators to the community is more effective, efficient and responsive (faster response). And also the use of information technology in governance (e-government), is also one way to realize bureaucratic reform in improving the quality of public services to make them more transparent, effective and efficient.

The use of information technology in every element of governance is also one of the supports for the state civil apparatus (ASN) to be more qualified, innovative, competitive, effective and efficient in carrying out their duties. To do this, an innovation is needed that is able to support and implement information technology in e-government easily, effectively and efficiently. This electronic service (e-government) has actually been felt by the community at this time with the advent of the OSS (Online Single Submission) licensing service. Benefits of using OSS (Taqiyya, 2021):

Facilitating the management of various business permits, both prerequisites for doing business (permits related to location, environment, and buildings), business licenses, and operational permits for business operations at the central or regional level with a mechanism for fulfilling commitments to permit requirements

Facilitate business actors to connect with all stakeholders and obtain permits safely, quickly and in real time

Facilitate business actors in reporting and solving licensing problems in one place

Facilitate business actors to store licensing data in one business identity (NIB).

OSS is used in obtaining business licenses by business actors with the following characteristics: In the form of business entities or individuals; Micro, small, medium and large enterprises; Individual businesses/business entities both new and those that were already established prior to the operationalization of OSS (Kusnadi, 2020). Businesses with capital originating entirely from within the country, or where there is a composition of foreign capital. Thus, emails, chat recording files, and various other electronic documents can be used as legal evidence. Based on the above background, this study aims to find out how the Supreme Court is preparing to respond to the development of digitalization of electronic services (e-government)?

## **Result and discussion**

Law is generally understood as a system of rules created and enforced through social or governmental institutions to regulate behavior, although the exact definition is a matter of long debate. It has been variously described as the science and art of justice. Laws enacted by the state may be made by the legislature and produce laws, by the executive through decrees and regulations, or formed by judges, usually in common law jurisdictions. Private individuals may enter into legally binding contracts (*pacta sunt servanda*), including arbitration agreements that may choose to accept arbitration as an alternative to normal litigation. The formation of the law itself can be influenced by the constitution, written or tacit, and the rights enshrined in it. Law shapes politics, economics, history and society in various ways and serves as a mediator between people.

Legal systems vary between countries, with the differences analyzed in comparative law. In civil law jurisdictions, legislatures or other bodies codify and consolidate laws. In the common law system, judges make binding case law, although sometimes case law can be overturned by a higher court or legislature. Historically, religious laws influenced secular matters, and are still used in some religious communities. Sharia law based on Islamic principles is used as the primary legal system in several countries, including Iran and Saudi Arabia.

The legal scope can be divided into two domains. Public law concerns government and society, including constitutional law, administrative law, and criminal law. Civil law deals

with legal disputes between individuals and/or organizations in areas such as contracts, property, torts/delicts and commercial law. This distinction is stronger in civil law countries, particularly those with separate administrative court systems; conversely, the public-private law distinction is less pronounced in common law jurisdictions (CR-26, 2018).

Indonesia is currently in the era of legal development, especially the development of digital law which is currently being developed rapidly, this is what I, as a writer, believe sooner or later will change the way of life, mindset and way of working. Preparation of the Supreme Court to respond to the development of digitalization of electronic services (e-government), the Supreme Court has seriously prepared for a New Era of Information Technology-Based Modern Justice. With the Birth of Perma (MA regulation) Number 3/2018 concerning Administration of Cases in Courts Electronically which has provided a legal umbrella for the implementation of e-court applications. Next, the Supreme Court issued Supreme Court Regulation Number 1 of 2019 concerning Electronic Administration of Cases and Trials in Courts. This time the E-Court is a form of reform of the Supreme Court of the Republic of Indonesia in the field of information technology in the justice system.

The application of e-government will later be interconnected in a government administration system and in the delivery of public services in a government agency. Given the fast pace of digitalization of electronic services (e-government) by state administrators, this does not rule out the possibility that state administrative disputes will also be getting bigger. Regarding the possibility of disputes over state administrative disputes in the field of (e-government), this must be balanced with the ability of judges, especially administrative judges, to study and analyze a case that has a digital element (Ginting, et al., 2022).

Administrative judges in state administrative disputes should pay attention to and weigh the opinions of electronic/website experts, especially government-owned websites. Considering that the application for government administration at this time is almost completely done online. (for example: OSS, fiduciary, Mortgage Certificates, auctions, etc.). OSS is a new national scale system developed by the government that is used for registration of business licenses as well as commercial licenses, through the OSS portal. Online Single Submission (OSS) is a licensing system that utilizes information technology that integrates licensing at the regional and central levels. The launch of the OSS system is a follow-up to Government Regulation Number 24 of 2018 concerning Electronically Integrated Business Licensing Services. Once again, the author emphasizes that the main purpose of the OSS system is to facilitate business activities in Indonesia so that it can increase investment and business (Setyowati, 2018).

Administrative judges must pay attention to the Online Single Submission (OSS) licensing system, because licensing now involves an integrated online system, which involves elements of regional government, provincial government and central government. how to upload data, the possibility of an error in the system, what is uploaded, how the system can reject and accept data. It is these things that allow administrative judges to involve Web experts (Dawud, et al., 2020). Why are Digital Web forensic experts needed in proving cases at Administrative Court, because in my opinion it is almost impossible for administrative judges to have good and correct knowledge of digital forensics. Web expert

witnesses will shed light on an administrative case, making it easier for State Administrative judges to make decisions (Mahfud, 2009).

Experts according to the Big Indonesian Dictionary are people who are proficient, fully versed in a science (intelligence). web is a system for accessing, manipulating, and downloading hyperlinked documents contained in computers connected via the internet; networking; network. So what is meant by a web expert is a person who has a knowledge of systems for accessing, manipulating, and downloading hyperlinked documents contained in computers connected via the internet; networking; comprehensive network.

Law Number 11 of 2008 concerning Electronic Information and Transactions provides a legal basis regarding the legal force of electronic evidence and the formal and material requirements for electronic evidence to be admissible in court. Electronic Evidence is Electronic Information and/or Electronic Documents that meet the formal requirements and material requirements regulated in the Electronic Transaction Information Law. Article 5 paragraph (1) of the Electronic Transaction Information Law stipulates that Electronic Information and/or Electronic Documents and/or their printouts are valid legal evidence. What is meant by Electronic Information is one or a set of electronic data, including but not limited to writing, sound, pictures, maps, plans, photographs, electronic data interchange, electronic mail, telegram, telex, telecopy or the like, letters, signs, numbers, Access Codes, symbols, or processed perforations that have meaning or can be understood by people who are able to understand them. (Article 1 point 1 of the Electronic Transaction Information Law).

Whereas what is meant by Electronic Documents is any Electronic Information that is created, forwarded, sent, received, or stored in analog, digital, electromagnetic, optical, or the like, which can be seen, displayed, and/or heard through a Computer or Electronic System, including but not limited to writing, sound, pictures, maps, plans, photographs or the like, letters, signs, numbers, Access Codes, symbols or perforations that have meaning or meaning or can be understood by people who are able to understand them. (Article 1 point 4 of the Electronic Transaction Information Law).

In principle, Electronic Information can be distinguished but cannot be separated from Electronic Documents. Electronic Information is data or a collection of data in various forms, while Electronic Documents are containers or 'packages' of Electronic Information. For example, when we talk about music files in mp3 form, all information or music that comes out of these files is Electronic Information, while Electronic Documents from these files are mp3s. Article 5 paragraph (1) of the Electronic Transaction Information Law can be grouped into two parts. First, Electronic Information and/or Electronic Documents. Second, printouts of Electronic Information and/or printouts of Electronic Documents. The Electronic Information and Electronic Documents will become Electronic Evidence (Digital Evidence). While the printed results of Electronic Information and Electronic Documents will be proof of letters.

Article 5 paragraph (2) of the Electronic Transaction Information Law stipulates that Electronic Information and/or Electronic Documents and/or their printouts are an extension of valid legal evidence in accordance with the procedural law in force in Indonesia, what is meant by expansion here must associated with the type of evidence regulated in Article 5 paragraph (1) of the Electronic Transaction Information Law. Expansion here means adding evidence that has been regulated in criminal procedural law in Indonesia, and

expanding the scope of evidence that has been regulated in criminal procedural law in Indonesia.

The expansion of evidence regulated in the Criminal Procedure Code has actually been regulated in various scattered laws. For example, the Company Documents Law, the Terrorism Law, the Corruption Eradication Law, the Money Laundering Law. The Electronic Transaction Information Law confirms that in all applicable procedural law in Indonesia, Electronic Information and Documents and their printouts can be used as valid legal evidence. How can Electronic Information and Documents be used as valid legal evidence? The Electronic Transaction Information Law stipulates that there are formal requirements and material requirements that must be met. The formal requirements are regulated in Article 5 paragraph (4) of the Electronic Transaction Information Law, namely that Electronic Information or Documents are not documents or letters which according to the law must be in written form. While the material requirements are regulated in Article 6, Article 15, and Article 16 of the Electronic Transaction Information Law, which in essence Electronic Information and Documents must be guaranteed for their authenticity, integrity, and availability. To guarantee the fulfillment of the material requirements in question, in many cases digital forensics is needed.

## **Conclusion**

Preparation of the Supreme Court to respond to the development of digitalization of electronic services (e-government), the Supreme Court has seriously prepared for a New Era of Information Technology-Based Modern Justice. With the Birth of Perma (MA regulation) Number 3/2018 concerning Administration of Cases in Courts Electronically which has provided a legal umbrella for the implementation of e-court applications. Next, the Supreme Court issued Supreme Court Regulation Number 1 of 2019 concerning Electronic Administration of Cases and Trials in Courts. This time the E-Court is a form of reform of the Supreme Court of the Republic of Indonesia in the field of information technology in the justice system.

Suggestion The Supreme Court should conduct Education and Training regarding online licensing, online registration, online support by executives, and administrative judges, preferably in digital cases so as not to hesitate to be able to present expert web witnesses to explain a case.

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## A COMPARATIVE ANALYSIS OF THE BUSINESS INTERNATIONALIZATION PROCESS: ROMANIA AND MOLDOVA

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**Abstract:** *The topic of firms' internationalization has been intensively studied over the years, representing an engaging subject for business enthusiasts from both the business environments as well as the academia. The process of internationalization is the method usually used by firms to expand their economic activity outside their country of origin, as they try to expand their market share and gain a bigger customer base. The purpose of this paper is to gain a better understanding of the evolution of firm internationalization in Romania and Moldova after the fall of communism as both countries have gone through drastic changes in order to become a market economy. This paper discusses the main business internationalization trends after the fall of the communist system.*

**Keywords:** *Internationalization, evolution, investments, trade*

### Introduction

The internationalization of companies is a topic often studied and encountered in the literature, capturing both academic as well as managerial interest. The process of internationalization is the method used by firms to expand their economic activities to capture a larger market share outside the country of origin. Johanson and Vahlne (1977) define internationalization as the multi-stage process in which firms strive to strengthen their market involvement and gradually gain engagement from foreign consumers. In today's economy, international trade has a strong impact on all the countries of the world, the involvement of national economies in international economic and financial exchanges is a condition and an important source for sustainable growth.

### Literature review

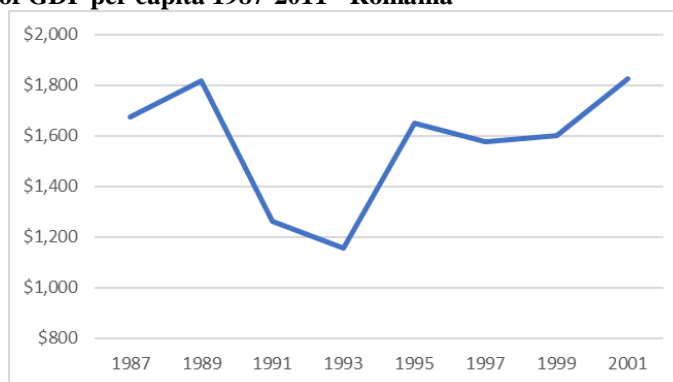
The on-going process of globalization offers multiple business opportunities for companies when considering going international (Zain & Ng, 2006), and these opportunities usually tend to impact international growth or have a positive effect on the return on investments. According to Beer et al. (2017), increased trade can lead to more efficiency and productivity, thus have a positive effect on economic growth. Consumers take advantage of a great product variety and lower prices, and in an interconnected world characterized by a high degree of specialization, products can no longer be produced exclusively in-country, or profitably sold only within the domestic market. Internationalization is a strategy of those companies which identify business opportunities in the international market to enable them to obtain competitive advantages over competitors and decide to

extend their activities abroad (Clipa, 2011). Fernandez and Nieto (2005) stated that the process of internationalization is considered the most complex strategy that a company may wish to follow. Economic transition has increased the number of companies that started taking part in the international markets (Ipsmiller and Dikova, 2021). Driven by the idea of growth and prosperity, many firms are willing to expand globally in order to increase their market share and gain a larger consumer base. Since the fall of communism, international business research in Central and Eastern Europe has received considerable academic attention (Jaklič et al., 2020), yet some countries were under the light more than others.

### **Business internationalization – Romania**

After the fall of communism, Romania had struggled on its way to a market economy, as the economy was almost entirely state-owned, and the private sector contribution to gross domestic product represented nearly 12% in 1989. An analysis of the macroeconomic indicators between 1990-2000 show the existence of significant economic and social changes.

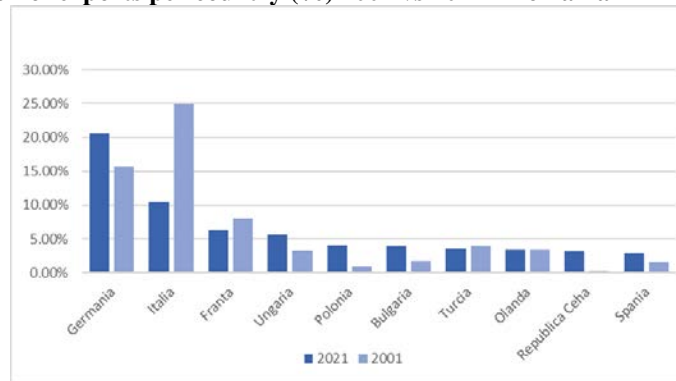
**Figure 1. Evolution of GDP per capita 1987-2011 - Romania**



Source: World Data Bank. <http://databank.worldbank.org/>

The GDP per capita values dropped significantly after 1989, indicating a lower standard of living for the people, and the country managed to return to its initial values a decade after. There was a decline in employment rate, specifically in the industrial and agricultural sector, and poverty rates went up. After 15 years of EU membership, Romania has seen a slow, steady increase in the standard of living due to many reforms in the economic, political, and judicial systems. In terms of foreign trade, the European Union became Romania's main partner of both exports and imports as well as inflows of foreign direct investment. In 2021, out of the top 10 destinations that Romania is exporting to, nine of the states are part of the European Union (figure below).

**Figure 2. Distribution of exports per country (%) 2001 vs 2021 - Romania**



Source: World Data Bank. <http://databank.worldbank.org/>

The top destination for Romania is Germany, accounting for over 20% of total exporting value, followed by Italy (11%), France (7%) and then Hungary (6%). Compared to 2001, exporting flows have changed quite a bit in terms of destination, as Italy was the main partner for Romania, followed by Germany and then France. According to the national institute of statistics, in 2021, Romania's top exports consisted of electric machinery, automotive, metals. In terms of importing, Romania has been following an uphill trend since 1990s, with a few slowdowns caused by the financial crisis in 2008 and the COVID health crisis in 2020. Romania has had a trade deficit since 1990, and it has been getting wider every year. The main reason is the deterioration in the energy trade balance, yet increased imports of food and industrial goods have also contributed to the bigger deficit. The figure below shows the evolution of imports and exports as of percentage of GDP from 1991 to 2021.

**Figure 3. Evolution of exports & imports as of percentage of GDP 1991-2021 - Romania**

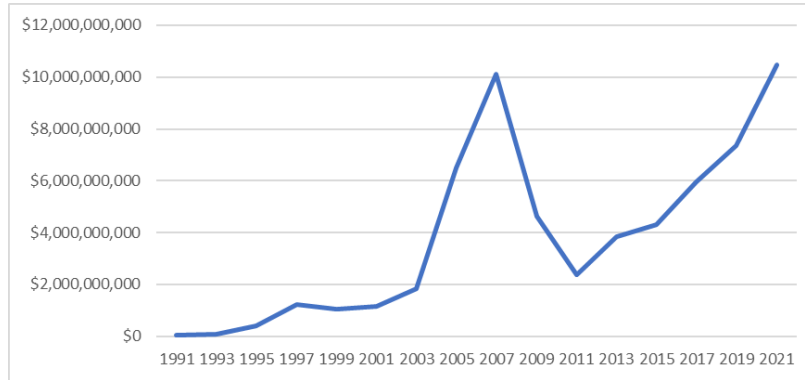


Source: World Data Bank. <http://databank.worldbank.org/>

The top importers of Romania are doing business in the machinery, equipment, and transport sector, followed by base metals, chemical and plastic products and agri-food items. According to the national institute of statistics, the bulk value of imports is traded by companies that are privately owned, followed at distance by companies that are mainly state owned. Foreign investments in Romania were present before 1990s as well, especially in the oil and automotive industry, however, things started getting better after the fall of the communist system. The evolution of foreign investment in Romania changed for a

marginal position before 1989 to a central position in 2006-2008. The figure below shows the inflows of FDI in Romania after 1990:

**Figure 4. Evolution of FDI inflows 1991-2021 - Romania**



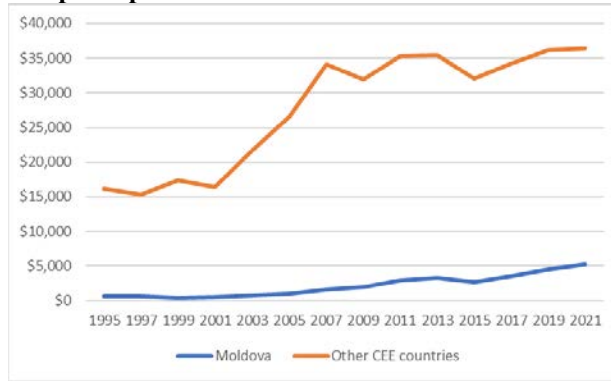
Source: World Data Bank. <http://databank.worldbank.org/>

Foreign investors started looking into Romania's benefits soon after the year 2000, and inflows really went upwards after the country was granted access to the EU; once the financial crisis in 2008 hit, investments went down, but there is an on-going upwards trend from 2011 onwards. Looking at the table above, there can be distinguished certain periods of time in terms of investments. From 1991 to 1997 there is an increase in inflows due to permissive legal system that attracted mostly individual investors; the period 1997-2001 is characterized by a significant political and legal instability as FDI inflows went down. Between 2001 and 2008, there is an ongoing increase in investments coming to Romania, access to the EU having a major role on the economic environment and attractiveness of the business environment. Thereafter, the effects of the financial crisis could be seen across many economies, therefore, there was a significant drop in FDI flows in Romania.

### **Business internationalization – Moldova**

Moldova is a small country with a transition economy, and its participation in foreign trade started in 1992 when restrictions on exports and imports were lifted. In 1995, the country had established international links with 90 countries, and by year 2000 there have been signed cooperation agreements with a multitude of economies worldwide. In 2001, Moldova became a member of the World Trade Organization (WTO), and there are other free trade agreements that the country has in place. According to the Moldovan national institute of statistics, in 2021, over 60% of the export goods and services were going to the European Union members, yet nearly 45% of total imports were coming from the EU. Despite the positivity given by increasing number in both imports and exports, Moldova has been going through economic reform since 1991, the year it gained its independence, when the transition toward a market economy started. One current issue that Moldova is facing is the low GDP per capita as it is one of the lowest in Europe. The European Union has demonstrated its solidarity with the country along the way, and the most recent recovery plan involves investments of nearly 600 million euros in order to develop the private sector. The table below summarizes the evolution of GDP per capita from 1995 to 2021.

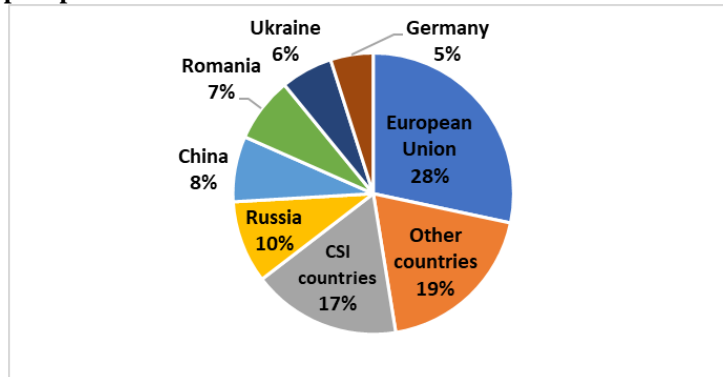
**Figure 5. Evolution of GDP per capita 1995-2021 Moldova vs other CEE countries**



Source: World Data Bank. <http://databank.worldbank.org/>

As it can be seen, Moldova’s GDP per capita is far from the average of all the other CEE countries. Following the fall of the communist regime, the country passed through a complex transition process and experienced a noteworthy recession. Since then, the country has been experiencing a slow, steady increase; according to the World Data Bank, in 2013, the economy grew by 8.9%. The European Union signed a trade agreement with Moldova and its objective is to reform trade policies in line with the EU’s plans; thus, foreign trade is a vital component for the country in maintaining international economic relations. Driven by a pro-reform approach, Moldova is making progress on economic reforms and strengthening democratic institutions. The main categories of Moldovan imports are machinery and equipment (19%), metals (15%), mineral products (15%), and chemical products (11%). The table below shows the main countries that Moldova receives products and services from.

**Figure 6. Main import partners for Moldova 2021**

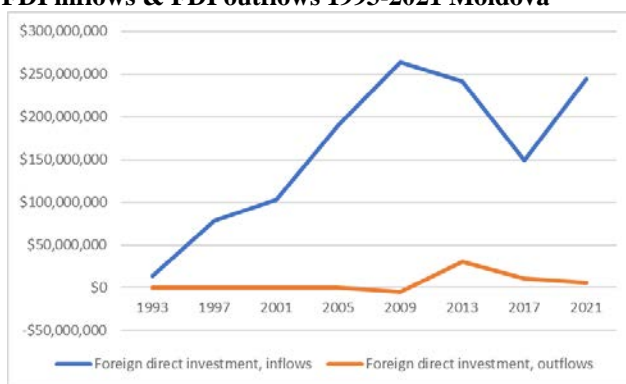


Source: World Data Bank. <http://databank.worldbank.org/>

The leading partner in terms of imports is the European Union (28%), followed by other countries (19%), Commonwealth of Independent States (17%), Russia (15%), China (12%), and Romania (12%). It is worth mentioning that up until 2020, when the COVID crisis hit, Romania was ranked first among top exporters to Moldova, while Russia was ranked second. Moldova has made constant efforts to attract FDI, thus there are no formal limits on foreign control of property and land, with the sole exception that foreigners cannot own agricultural or forest land. The government knows FDI is vital for sustainable growth

and for a better standard of living. Moldova has built an agency to assist potential investors with information, facilitate contact with officials and organize visits if necessary. Moreover, the government signed 50 taxation avoidance agreements with various countries around the world. The efforts that the country has been making are starting to be seen as FDI inflows have gone upwards, yet due to the financial crisis in 2008, the values went back down. The table below summarizes the evolution of both the FDI inflows and outflows of the country.

**Figure 7. Evolution of FDI inflows & FDI outflows 1993-2021 Moldova**



Source: World Data Bank. <http://databank.worldbank.org/>

Soon after the proclaimed independence, Moldova has become a more attractive target in terms of FDI inflows, however, the financial crisis in 2008 brought the levels of investments back down to similar levels of 2003. In terms of outflow investments, due to its smaller size and reduce economic power, Moldova does not have an official policy for promoting or incentivizing investments abroad.

## Conclusions

Romania and the Republic of Moldova (Moldova) have a special relationship based on common ground such as language, culture, history, and traditions. In terms of the economic environment, Romania's role in the Moldovan economy has been growing steadily over the years, as Romania is the most important trade partner for Moldova. In the context of European Integration, the EU encourages cooperation with border countries, thus, through implemented policies and programs, the relationship between Romania and Moldova is important. One of the main competitive advantages of Romania is the geographic location as it is easy to access, connected in any direction with neighboring countries through different modes of transportation, making this state an attractive target for foreign investors. Moreover, the human resources in Romania are well-educated, motivated and at relatively low wages compared to the Western countries. In the past decade, Moldova managed to implement various comprehensive social, political and economic reforms that helped boost economic performance. One of the main factors to a sustainable business environment is peace and political stability, thus, Moldova has been trying to accomplish these goals through closer partnership with the European countries.

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## UNDERSTANDING THE ELITE THEORY AND RURAL UNDERDEVELOPMENT IN NIGERIA LOCAL GOVERNMENT

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**Abstract:** *The paper examines the threshold of the elitist theory and its underpinning application or relationship to rural under development within local government in Delta and Edo states of Nigeria. It is persuasive to averred that rural under development in Nigeria is not a news neither is it a scientific discovery because every nook and cranny of the areas speaks for itself in terms of all manners of human and capital under development that strongly persist or exist every where in the nation of Nigeria . Sad as it is Nigeria as a geographical entity is managed and control by government officials cadre that are broken down to the last level of government known as the local government which are hereby bequeathed with the cardinal responsibilities of rural management and development, yet it is not demeaning to state that these arm of government has outlived their usefulness due to so many factors amongst which is the sterile officials that make up the crop of the elite who could be regarded as the steering men of governance that has turn their subjective aspirations, desires and wills into the annals of governance instead of an objective desires that comes out of the local communities who are supposed to be at the center of it all. This state of affairs underscores the perpetual reasons behind the uncontrollable industry and super structure of underdevelopment created by these officials over the successive years of governance nationwide especially in Delta and Edo state as the area of analysis. The study made some salient recommendations among which are the idea of community development in concept and context should be popularized in our local communities so that people can also take responsibility of the development of their community serious however it is or look like, as it has always being argued that local government, laws should be repeal to tame the overwhelming influence of the elite against the system, laws enacted should be practice to the letter, the public information act should be effective for people to know when to hold government accountable as far as governance is concerned*

**Keywords:** *Local government, Rural areas, Elite Theory, Underdevelopment*

### Introduction

Nigeria operates a democratic system of government which allows the style of representation on every level of government since everybody cannot be gathered to make a holistic decisions as it will end up in futility. The impossibility of everyone gathering to make decisions in the society allows or permit a few persons to be at the front burner of decision making since they are elected from the people themselves. This overwhelming



nomination, appointment and election from the masses has given the few overwhelming authority and privileges that are not at the disposal of those who elected them, this state of things gave rise to the elite theory of Gaeto Mosco who lived in (1858-1936) Vilfredo Pareto (1925- 1948), Robert Michels (1876-1936) where they adumbrated the influence of the elite on the masses. Mosca maintains that the elite have certain defining characteristics such as intellectual ability and moral superiority over the governed. Vilfredo postulates that in any society, the elite are the most talented and deserving group of individuals who are most adept at using two modes of political rule, force and persuasion. They usually enjoy import and “imperative” advantages or “opportunities” such as inherited “patrilineal prowess” in the form of wealth and “assorted” connections (Marshall, 2007).

It therefore, gives a rich underlining picturesque analytical frame work on the epochal factors or reasons behind the underdeveloped status of the nation especially at the rural communities levels of local governments in Delta and Edo states. The elite are found from the basic strata of councillorship to the local government chairmen, governors, house of assembly members at both the states, and the federal. This crop of officials forms the bulk of elites which make overlapping, overwhelming and intertwining decisions or indecisions that determine the pace of development or underdevelopment of a people because he who plays the pipe determines the tone.

That is why this paper is prepared or fashioned to interrogate the role of elite in the underdeveloped state of various rural communities in Delta and Edo states of Nigeria because indeed good or bad governance begins from government official elite and also end with the elite themselves. A developed nation is a product of multitude of good, dynamics and pragmatic leaders that are charged with the affairs of compassing the society whose civic, political and social responsibilities have been bequeathed to by the people or the masses that make up the entity of the states.

## **Rural Areas**

The concept of rural areas varies from place to place. In the view of Olisa et al (1992) population is the major characteristics differentiating rural areas from urban areas. For instance, in Japan, rural areas are defined based on the population density indicating an area “other than an area with 5,000 people which consist of each district with a demographic” population density of 4,000 per square meter. Obasil, 2013 however, note that since the definition cannot be applied to other less populated countries, rural areas are also described as areas where majority of the residents are engaged” in. agriculture “as cultural way or take off stage of life. Other factors such as types of occupation, settlement patterns, and level of economic, social and political participation are also considered in defining rural areas (Japan International Cooperation Agency, 2002). Harris (1982) stated that rural areas relate to places that have a relatively low population density where agriculture dominates the landscape and economy, provision of social service is difficult and where transport and communication need to “cover relatively large distance”. Bogoro (2009) defined rural areas in Nigeria as centers of deprivation where life is devoid of opportunities and choices and an environment lacking in infrastructural facilities including roads, water supply and sanitation, energy communication facilities “and lot more that alienate them from the urban environment”. Olaide, (1984); Raj, (2005) and Oruonye, (2013) asserted that major characteristics of rural areas in Nigeria are; large lands for

agriculture, low population density, little or no technology, large number of small scale producers, labor intensive and subsistence farming, high poverty levels, and predominantly illiterate population “devoid of a comprehensive education”. Scholars have also conceptualized rural areas in different perspectives. The modernization theorist view rural areas as being traditional and primitive. According to them, the major obstacle to progress and development in rural areas are internal, most especially their adherence or affiliation to culture. For instance, Rostow, (1960) and Lipset (1967) argued that economic conditions in rural and traditional areas are heavily determined by the cultural and social values in that given society. They stated that while modernization might deliver violent or radical changes, it is worth the price. The dependency school on its part argues that the main problem in rural areas is the “modern” but not beneficial externally imposed economic constraints of capitalism (Smith, 1979). For the dependency theorists, just as the urban areas in the developing countries is built to serve the interest of the western capitals so does rural areas in the developing countries serve to protect the interest of the urban areas in their respective countries (Muzaale, 1987; Binswager-Mkhize and McCalla, 2009). However, there is a consensus among the different perspective about the need for improvement in rural living condition and the standard of the rural populace.

### **Socioeconomic Challenges of Rural Communities in Nigeria**

#### *Low Economic Indicators*

In the early 1980s, global perception on socioeconomic development was centered on quantitative indicators like gross domestic product (GDP) and gross national product (GNP). Before that period according to Oyebanji (1983), Nigeria’s GNP grew from N220 per person in 1975 to about N298 by 1979 which was a significant growth pace. However, the question was whether the ordinary man on the street felt that growth. In all probability, he did not; and that was mostly due to high unemployment rate, corruption, inflation and derelict infrastructure, among other matters, which were troubling the Nigerian state then (Okafor, 1983). It is quite disheartening that three and half decades after Igbozurike and Raza (1983) had conducted an investigation on it, the overall situation appears not to have improved. One burning issue, for instance, is the rapid rate at which young men and women continue to leave rural communities in search of a better life in urban centers. According to Paul, Agba and Chukwurah (2014) most development initiatives designed to foster development in rural areas are mostly inadequate, despite the fact that more than 60% of Nigerians live in rural areas. In their view Shehu, Onasanya, Ursula and Kinta (2011) the development initiatives have been designed mainly without the contribution of all relevant stakeholders thereby making them only good in theory and un-implementable in reality. The main programs which have been put in place over the past three decades by government to check rural underdevelopment and boost the economic status of the people.

#### *Rural Development*

Rural development like development had no unanimity of definition and has been perceived from different viewpoints and theoretical models such as the modernization approach, mobilization approach, dependency perspective or bottom approach. The World Bank in 1975 defined rural development as a strategy aimed at improvement of the economic and social living conditions focusing on a specific group of people in a rural

area. This is to assist the poorest group among the improvement of the living standards of the low -income people living in the rural areas on a self- sustaining basis through transforming the socio-spatial structures of their productive activities. It implies a broad reorganization and mobilization of the rural masses and resources to enhance the capacity of the rural populace to cope effectively with the daily task of their lives and with the consequent changes. (Malcom 2003) referred to rural development as the process of improving the quality of life and economic wellbeing of people living in relatively isolated and sparsely populated areas. According to Alanana (2005), rural development could be regarded as a process in which a set of technological, socio-cultural and institutional measures are implemented with or for the inhabitant of rural areas with the aim of improving their socio-economic status or living condition to achieve a balance between the local and national sectors. Idris (2011) views rural development as a continued set of actions by government agencies, NGO's and the rural populace in improving the rural conditions of the rural people and a process which leads to series of changes within the confine of a given rural dwellers. Rural development had also been used synonymously with increased agricultural input and productivity. This was the major orientation of the colonial effort at rural development in Nigeria Muaghalu (1992) argued that the colonial philosophy of the British saw the rural area of the enclaves for agricultural production by insisting that there are few non-agricultural occupations in the rural third world. This perspective therefore suggested that modernization of the rural areas through the adaption of the basic production techniques such as mechanized system of production in the agrarian sector is a requirement for rural development is aimed at achieving the same goal of uplifting the rural poor. In support of this view, Idike, (1991) opines that the main concern of rural development is the modernization of the rural, sector through a transition from traditional isolation to integration with national economy.

This view was opposed by Neo-Marxist scholars such as Offiong (1980), Ake(1980) who posited that Nigeria's ruling class and wealthy business men made their money off the backs of the poor farmers in the rural areas through the marketing boards device and by serving as compradors to the multinational corporations in the colonial and post-colonial who are in firm control of the economy and dictate the manner and pace of the country's development. According to Marugba (1984), rural development is an issue contemplated on the desk of urban based planners who think the real function of the rural society is to produce agricultural products and maintain the urban system. He further opines that the skewed relationship between the urban and rural population has been the attitude under which first western cultures exploited rural societies, and now the same attitude prevails in developing countries including Nigeria. This point was corroborated by Ujo (1994) who asserted that the urban/rural divide emerged in Nigeria because of a deliberate policy pursued by the British Colonial Masters who concentrated all development activities in the urban areas

From the above definitions and theoretical perspectives, rural development is for improving the living standards and basic needs of the rural people. Therefore, all rural development efforts must be derived from the needs and aspirations of the rural population and not essentially in response to the needs of the urban political economy. Government should put sincerity at the topmost priority in the scheme of things as nothing can be left undone as far as rural socioeconomic development is concern in Nigeria.

It is worthy to note there have really been several efforts mandated by government from time past to birth socioeconomic development in rural communities which shall be considered in this study.

### **Evolution of Rural Development Activities in Nigeria**

That community participation in rural project development is an important element and a sure way to the speedy development of the rural areas in Nigeria is well attested to in development literature. Hence, Okafor, (1984); Udoye, (1986); Muoghalu, (1986) and (1987) averred that the need to develop the rural areas and to a large extent, reduce the contrasting scenario of urban opulence and rural decadence led to much government undertakings strategy to uplift the rural areas in Nigeria. However, the evolution of the practice of self-help development activities has the following periodic dimensions; the pre-colonial, the colonial up to 1939, the period from 1940 to the Nigerian war, the civil war years and the post-civil war years to the present democratic settings (Ihenacho, 2013:2). Before the onset of colonial administration, communities across Nigeria had employed communal efforts as the mechanism for mobilizing community resources to provide physical improvement and functional facilities in the social, political and economic aspects of their lives. Communal labour was employed in constructing homesteads, clearing farm lands, roads or path way, construction of bridges and for the provision of other social infrastructural facilities required by the people. Some of the relevant institutions were the age grades and the village councils. Though in current times perceptibly, differences exist in the mode and scope of the operations in terms of equipment utilized and the extent of government involvement. As Idohe (1989) observed, in the past, self-help efforts in Nigeria particularly in Bendel States now Edo and Delta States mainly related to the construction of footpaths or roads, dredging of rivers and streams, clearing of public land and market places. Later, Idode further observed, the scope of operation included the building of schools and market stalls. Project such as pipe-borne water, road tarring, dispensaries, and cottage hospitals and so on, were not usually attempted. Furthermore, equipment used was simple; hoes, cutlasses, diggers and shovels were generally utilized. The construction of walls did not follow any standard measurements as the people used their imagination to plan and construct such projects. At this stage, there was little or no government involvement as the planning and execution of these self-help projects was the sole responsibility of the people. Where the government was involved at all, was for the purposes of taking over completed projects for operation or maintenance. But where neither the state government nor the local government councils were interested in such project, the missionaries took over (Isah, 2015:9).

However, during the colonial period, community development efforts took a compulsive and coercive turn. The alien government apparatus with its clientele (Warrant Chief) arrangement extorted taxes and compulsory labour from the people. Taxation by itself questioned the rationality of further labour conscription for road and other infrastructural development at the instance of the District Commissioner. The contradictions is the new development effort, therefore, did not form the corporate imagination of the people and this was given expression by the tax debacle of 1929, popularly known as the Aba women riot. It question the whole essence of the tax laws as established then, the imposition of the

Roads and River Ordinance and the apparent shirking of development responsibility by a government that had already extorted taxes for this purpose (Oyediran, 1980).

Apart from the establishment of governmental exploitative infrastructural apparatus, linking the major. Seats of government through forced labour, no serious self-help programmes eliciting popular participation was encouraged. Any development that occurred was by-product of profit (Hancock, 1942). Nonetheless at very local levels, the family, interfamily and village settings, the pre-colonial trappings of mutual assistance through self-help persisted for the construction of homesteads, clearing farmlands, clearing water points and for providing other socially felt needs. Church organizations were also able to cooperate with members for the building of schools. By the late 1940's however an element of modern community concept in rural development was introduced in the form of mass mobilization for self-help activities. This was heralded by the abrogation in Britain of the colonial development act which was replaced by the development and welfare Act in 1939. As rightly noted by Arndt, (1981), this gave a positive economic and social content to the philosophy of colonial trusteeship by affirming the need for minimum standards of nutrition health and education.

At the local level, the earlier native authority councils were replaced by the country council. Suffice it to say that this development led to the establishment of community development division at the local level and thus became an important organ of government, charged with the responsibility of channeling and coordinating the efforts of the people towards promoting social and economic development (Onwuzuluike, 1987). The development and welfare fund provided for the colonies by the British government was thus able to permeate to the grassroots level through this third tier of government.

By the beginning of the war in 1967, the observations of sir James Robertson, aptly typified the state of development needs and awareness and the immense role of the governments and expected self-help activities are to play to complement their efforts. After the Nigerian civil war (1967-1970), the need for massive reconstruction work further aroused in the people a revival of the spirit of self-help which is deeply rooted in their rich traditions. Most communities realized that the only way for immediate reconstruction of the war-ravaged facilities was through self-help. This period also marked the evolution of a multiplicity of social clubs such as social insurance and self-help group (Nwakwo, 2005:2). Further efforts by government to motivate development at the grassroots, led to the enactment of the 1976 Local Government Reform to create new growth centers for further spatial spread of development. In addition is the creation of the local government service commission, the conferment of wider powers and functions to the local government aimed at generating more funds for community development at the local level. Thus, deliberate government support became necessary to increase the spate of development activities by the various communities (Akpomivie, 2017).

The period between 1973 and 2007 marked a watershed in rural development efforts in Nigeria. The period witnessed deliberate government efforts at mobilizing the people for rural development. A number of task forces and bodies were set to oversee, organize and to direct partnership with the people on self-help activities. They include: Directorate of Food, Roads and Rural Infrastructure (DFRRI), Rural Electrification Schemes; Credit Schemes to small holders through various specialized institutions such as People's Bank, Agricultural and Cooperative Development Bank, Community Banks, NERFUND, SME Credit Schemes, the Family Economics, Advancement Programme (FEAP), Universal

Primary Education Schemes and Low Cost Housing Schemes, Health Schemes as the Primary Health Care Programme, National Directorate of Employment (NDE), Better Life for Rural Women Programme as well as the Family Support Programme (FSP). More recent programmes includes the National Poverty Eradication Programme (NAPEP), the YOUWIN program as well as the Small and Medium Industries Equity Investment Schemes (SMIEIS) (Aleys, 2012:33).

The various state governments had also articulated blueprints on rural developments, adopting the Integrated Rural Development Strategy as their strategic option to carry development to the masses. From the foregoing historical analysis, two principles underlying rural community development activities have emerged. These are (a) the principle of individual and corporate survival and (b) the principle of societal “felt need”. These two principles have variously acted as the motive force in organizing and mobilizing the people in their pursuit of self-development (Abdul, 2014).

From the foregoing, the journey to rural development quest has been a long time bound that continue to persist and exist in the Nigeria society and because the quest for development is natural in nature and exist in the innate state of men it will continuously become a matter of interest, conflict and also of peace. It therefore, gives a compelling clarion call so as to engenders satisfaction and a common hegemony to the center stage if not there will be continuous yearning for self-rule and cessation from the centre since there already exist a state of dissatisfaction of its people.

### **Rural Development in Nigeria’s Fourth Republic**

The efforts to improve agricultural production in the rural areas started shifting to poverty alleviation and sustainable development in the mid 1990’s. poverty alleviation became a critical issue as most African countries were weakened by lingering conflicts and economic liberalization policies and lost their capability to implement rural development projects (Takeuchi, 2011). Because of the lingering issue of poverty in Africa, the World Bank announced its intention to revitalize activities of rural development during the Mid 1990’s (World bank Annual Report, 1997). African regional bodies also agreed to take measures to address challenges of poverty when African realized that about half of its population was living on less than \$1 per day. Subsequently, poverty alleviation and employment issues dominated rural development programs from the democratic era beginning from 1999. The New partnership for Africa’s Development (NEPAD) was adopted by the assembly of African heads of state in 2001 as a strategic framework for African leaders to address poverty and underdevelopment throughout the African continent. The National poverty eradication program (NEPEP) an innovation of the New Partnership for Africa’s Development was set up also in the year 2001 by the Nigerian government with the responsibility of addressing rural development in Nigeria and related issues, training of youths in vocational trades to support internship, micro credit scheme, create employment industry and provide a social welfare scheme. To implement these programs, the government placed emphasis on complementation, collaboration between different tiers of government, donor agencies and non-governmental organizations. The general vision of the scheme was to bring about a participatory and sustainable development and completely eradicate poverty in Nigeria. It also had elaborate structure with the top agency being the national poverty eradication council (Bindir, 2002; Omah, 2004 Adoyi, 2010).

But after many years of implementing the NAPEP programme, the living conditions of the rural populace did not change since most of the programs carried out by NAPEP were concentrated in the urban areas. Poverty levels were indicated to have also increased from 54.4% in 2004 to 60% percent in 2010 ( Ugoh et al, 2009; Akpan , 2012). Ugoh, et al (2009) and Randel, (2011) identified factors that have been contributed to the failure of NAPTEP to involve the rural poor, targeting mechanisms, failure to focus on the rural areas, programme inconsistency, poor implementation and corruption,

The National Economic Empowerment and Development Strategy (NEEDS: 2003-2007) was also introduced in 2003 as a medium-term strategy modeled towards the IMF's poverty reduction and growth facility to achieve some macro-economic goals of stability, poverty, wealth creation and employment generation. The programme was nationally coordinated. With State Economic Empowerment and Development Strategy (SEEDS) and the Local Government Empowerment and Development Strategy (LEEDS). The LEEDS was to focus its effort in keeping the program in contact with the rural areas since it is the closest to the government to the rural areas (Omah, 2014; Randel 2011).

Compared to the rest of the poverty alleviation programs in the post democratic era, the NEEDS strategy was at least on record able to minimize the incidence of poverty in rural Nigeria. This was possible because it had a wider coverage and the involvement of the different tiers of government in reproducing the program within their respective domains (Adoyi, 2010; Akpan, 2012; Yahaya, 2019). Although it is quite statistically difficult to comprehensively assess the progress recorded by NEEDS in regards to its initial objectives of poverty alleviation and economic empowerment of the people especially in the rural areas, some studies, however argue that NEEDS was not different from previous public programs in terms of political commitment and implementation practices (Omah, 2004; Nwaezike, 2009; Adoyi, 2010; Yakubu and Aderomnu, 2011; Idris, 2011; Oruonye, 2013).

### **Agencies of Mobilization for Rural Socio-Economic Development in Delta and Edo States**

The following institutions can serve and has always served as agencies of mobilization at the local communities' level as captured by Emeh, Eluwa and Ukah (2012:2).

**a. The Local Government:** The local government being the government nearest to the populace, is one of the best mobilization agency for generating motivations and encouraging mobilization for self-help, as well as including the much needed wider participation of the local population in the decision making process at the level. According to Edward Scouma (2019) "the so-called third world is a rural world where any meaningful discussion of rural development really means not only "talking of overall national development", but the hinterland because " it is in the rural areas that the problems of grinding poverty in which the wretched members of the society stagnate and stare one in the face with brutal clarity. The raison d'être of the local government in Nigeria is to at least halt the deteriorating living conditions in the rural areas of this country. An effective local government will be better disposed than the state or federal government, not only to stem the grim reality of the rising tide of rural poverty but also be more able to evoke the spirit of locality corporation thereby being more able to galvanize and mobilize the support of local citizenry in participating in all the programs that may affect them"

**b. The formal but non-government:**

In Nigeria today, there are no fewer than ninety -seven thousand (97,000) rural communities and government has been encouraging these communities to form development association. These associations will thus become agents at the cutting edge of development at the grassroots level. If these various individuals as well as associations are separate units and to take on the development of themselves and their communities in their own hands, they first have to be educated to the fact that they have to be empowered through political education to be willing to take on these responsibilities. This is where the directorate of social mobilization are working in concert to realize the objective of mobilizing the people to usher in a new era of integrated and authentic rural development which is human centered (Eme, 2012). In the rural and urban communities today, there are such formal and organized voluntary associations such as the town unions, community development associations, social clubs, corporative movements, professional bodies (National Union of Road Transport Workers), bar associations, medical associations, fraternities such as the rotary clubs, etc. whose membership and cultural affinities cut across the length and breadth of this country. Often time, these associations seek to promote not only the welfare of their members but also sporadically undertake the welfare interest of the society within which they live. Some of the members of these associations cut across ethnic and cultural cleavages and they could become veritable instruments of mobilizing local citizenry since they live amidst them

**c. The Non-Formal Organizations:**

At the community level it can also be defined as non -formal or not so well organized pressure group associations that equally can influence the local populace. These associations include market associations, student unions, Umuada associations, village elders' council etc. present day discovery has shown that these most critical local group levels of the society could also be used as mobilizing agents at the local levels of Nigeria (Eluwa, 2012).

**d. Traditional/Institutions:**

It is no longer a secret to know that certain persons, for example the traditional rulers possess and exercise great influence on the masses. Somehow, traditional rulers still enjoy the confidence and great respect of the greater part of Nigerian populations, to such a degree that they still remain undisputable force to reckon with for effective and successful mobilization of efforts. This statement is true in the South Western part of Nigeria, especially among the Yorubas and Bini's, truer in the Northern part of the country where the Emir, to a large extent, hold sway over the lives and activities of those in their domain; but less true in the South Eastern part of the country especially among the Ibos, the Ibibio's and the Ijaws whose egalitarian and republican way of live make them less amendable to unalloyed loyalty and unresolved obeisance to their traditional rulers

Also, these days of Naira chiefs (most of the traditional stools are keenly contested by various wealthy aspirants and since these traditional rulers are in-charge of various villages or communities, the views and status of the victor, after the usual life and death contest. May hardly be respected outside his own immediate village within the town). Therefore, excessive reliance on the so-called traditional rulers especially in the eastern part of the country for purposes of mass mobilization may boomerang especially if they are at logger heads with the people-oriented and people-elected interest groups such as town unions, social club, etc. Therefore, in the eastern part of Nigeria as opposed to those states in the



West and in the North, there should be a cautious use of agents of mass mobilization for self-help in rural development (Ogbalu, 2012:3).

### **Local Government Statutory Provisions in Nigeria**

During the process of decolonization, the first famous elected local government council based on the British Whitehall model emerged in Lagos and the former Eastern and Western regions (1950-55). The councils were given a wider range of functions that include primary education, health, police, judiciary, autonomy in financial, personnel and general administrative matters. This was in line with the implementation of the colonial government's ten-year Welfare and development plan from 1946-1956 (Nwabuoze, 1982:20-21). Once the independence was attained, it was observed that there was decline in the prestige and responsibilities of local authorities in 1960-1966. In the former Western region, the local government Amendment law 1960 abolished the powers of councils to levy education and general rates on the basis of need. In Lagos, there was a high rate of default in the payment of property rates including government institutions, which reduced the revenue of the local councils. In Eastern Nigeria, similar footsteps from western region and Lagos were pursued. The situation in the north seems better, hence it enjoyed a remarkable historical success of indirect rule, there were gradual changes in the structure of the councils with increase in numbers of elected or appointed non-traditional office holders becoming members of local authorities. As a result, the local authorities had a stable administration that enabled them to assume responsibility with some degree of success. In the post of independence era, eyes are opening and people saw the need to have concrete LGs that can cater for their needs. During 1969-1971 number of state governments introduced some changes in the structure of their councils. The first significant attempt of local authority reforms occurred in 1976, under the local government reform provision. (Nwabueze, 1982).

The provision defined local government as: "government at local or internal" level exercised through representative council established by the law to exercise specific powers within defined areas. These powers should give the council substantial control over local affairs as well as the staff and institutional and financial powers to initiate and direct the provision of services and to determine and implement projects so as to complement the activities of the state and federal governments in their areas, and to ensure, through devolution of these functions to these councils and through the "internal" active participation of the people and their traditional institutions, that local initiative and response to local needs and conditions are maximized" (Guidelines for Local Government Reforms, 1976).

Among other key point, the above definition strengthened the need for autonomy of the local government, ability to be elected at the local level and operate independently of the state and Federal Government. The Local government is no longer an appendage of field office of the state government. The characteristics of local government autonomy includes among other things; ability to make its own laws, rules and regulations; formulate, execute and evaluate its own lane and the right to recruit, promote, develop and discipline its own staff. To maintain effective local government, the Federal government in collaboration with the state government embarked on extensive reforms of local government in 1976. The objectives are to:

- i. Make appropriate services and development activities responsive to local wishes and initiatives by devolving or delegating them to local representative bodies.
- ii. Facilitates the exercise of democratic self-government close to the grass roots of our society and to encourage initiative and leadership potential.
- iii. Mobilization of human material resources through the involvement of members of the public in their local development.
- iv. Provide a two-ways channel of communication between local communities and government.

The 1976 reforms celebrated landmark uniform system in the history of local government in Nigeria. The reforms recognized local government as the third tier “layer” of government operating within a common institutional framework with “internal or home grown” defined functions and responsibilities. It also introduced a multi-purpose single-tier local government system for the whole federation (Ajayi, 2000:70). The reform further put limitation criterion on population of within 150,000 to 800,000 considered feasible for creation of local government in order to avoid the creation of non-viable local council and for easy “or open” accessibility. Furthermore, provision was formulated for elective positions comprises of the chairmen as executive head of local government with councilors representing the cabinet that are responsible for implementing policies (Guidelines for Local Government Reforms, 1976).

The provision stated that 75 percent of members of the council are to be elected through the secret ballot on a no-party basis under the direct and indirect systems of election. The remaining 25 percent are to be nominated by the State government. The 1976 reform provisions also provided local government with statutory grants from federal and state governments. The Federal Government under the military regimes of former General Olusegun Obasanjo began to allocate federal revenue to local government in 1977 with 5 percent. The 1979 constitution takes a step forward stated that all local council members are to be democratically elected, and annulled the nomination of 25 percentages of the member as specified in the 1976 reforms.

During the second republic (1979-1983), the civilian administration ignored the constitutional provisions and no elections were held, instead sole administrators were appointed to administer the LGs. Another major reform occurred in 1991 during the military regime of Ibrahim Babangida (1984-1992) the constitutional provision on LG was restored. The reforms were improved with the abolition of the Ministry of Local Government, and replaced it with the establishment of executive and legislative arms in local councils. A direct allocation to local government without passing through state government was decreed by military junta. In 1992, Babangida administration further increased the number of local government from 301 in 1976 to 453 in 1989, and 589 in 1991. While the Abacha regime further increased the number to 774 local councils. Increase in the local government council in Nigeria was a result of new states that were created. Currently Nigeria had 36 states and the federal capital Territory with 774 local governments’ authorities (Ajayi, 2000:7).

Sub section 3 of the allocation of revenue under the federal accounts stated that: “subject to the provisions of this act, the amount standing to the credit of local government councils in the federation account shall be distributed among the states of the federation for the benefit of their local government councils using the same factors specified in this Act”.

Section 3 empowered the allocations to be monitored, supervised, and dictated to local authorities by their respective state government, hence the allocations are not paid directly to the local government but through the joint account of the state government (Otive Igbuzor, 2007).

Apart from the federal allocations, state government is also obliged to share 10 percent of its internal revenue with the local authorities. "In addition to the allocation made from the Federation Account under section I of this Act to Local Government Councils, there shall be paid by each state in the federation of the state Joint Local Government Account (as specified in subsection (5) of section 162 of the constitution of the Federal Republic of Nigeria) in each quarter of the financial year, a sum representing 10 percent of the internally-generated revenue for that quarter of the state concerned" (The Allocation of Revenue Federation Account, Act). The imbalance in the allocation is that, although states were empowered to disperse the allocation to LGs without any adequate guidelines. Several states therefore use the allocation to serve their personal political motives, or paid to their LGs in the manner that it will not be able to carry on any meaningful development projects for the society.

### **The Elite Theory and Rural Underdevelopment in the Local government of Delta and Edo States**

Elite Theory is the model for our analysis. The elite theory in social sciences generally is the theory of the State which helps to locate and explain the power relations in the contemporary world and in this study between the central government, State and Local governments. The early proponents of this theory are Gaetano Mosca, who lived in (1858-1936), Vilfredo Pareto (1858-1948), Robert Michels (1876-1936) in their various postulations, emphasized the influence of the elite on the masses. Mosca maintains that the elite have certain defining characteristics such as intellectual ability, moral superiority over the governed. Vilfredo postulates that in any society, the elite are the most talented and deserving group of individuals who are most adept at using their inherited wealth and family connection (Marshall, 2007). The principle of the elite is that there exists in society, a minority of the population which makes and takes major decision that affects the general society and because these decisions have wide scope, they touch most aspects of the society. This underscores the preponderance and stratification of Nigerian states into local government system. These decisions are usually regarded as political decision even when the majorities are not politicians. At the early stage, the study of the elite theory was not given much consideration in the field of political science until the late 19<sup>th</sup> and early 20<sup>th</sup> centuries with St. Simon attempting to study the nature and character of the elite. Ikelegbe (1996:35) notes also that public policy reflects the value, aspirations and preference of the elite rather than the demands of the masses. It is based on self-vested interest in the protection of its status quo. They owe their positions to the control of the productive resources of the society hence one can talk of the military elite, religious elite, business elite, bureaucratic elite, political and the governing elite. The spread of the elite further explains the rationale for the proliferation of local government in the country which saw the growth in number from 301 in 1989 to 774 in 1996. The military within the context of elitism created local government for civilian political associates, kinsmen and also in their bid to legitimize their stay in power that the status quo can be retained. The outcome of all

these vested interest is manifested in non-performing local government that cannot take care of the staff salaries and wages not to of communities (Adeyemi 2013). The creation of these local government area is seen as military conspiracy that is further aggravated by the ruling political elite and their cohorts in their desire to remain relevant in the sharing that comes from these councils at the end of every month and this may have triggered the long debate on whom the institution of local government should pledge its loyalty. The elite theory emphasizes the roles of the political and economic powers which the proponents had earlier seen as the two types of instrument in the hands of the elite through which they control the resources and administration of the day and by so doing helping to protect and guide their interest hence one can talk of the political elite. The introduction of the sole administrator system in Nigeria local system in 1983 by then the military government headed by general Buhari was a clear demonstration of the military to control the affairs of the country through the local government system. There is an adage that he that plays the drum dictates the tone. The civilian who was selected to head these councils were from the elite class who were economically and politically related

The advent of democratic government has not changed much as many state governors have also adopted the elite model of preserving their choices and preferences ranging from caretaker committees to traditional committee depending on the semantics the states adopt. These activities in the system of local government continued to threaten the existence of local government as a separate tier of government, with autonomy to act indecently and the management of local affairs completely relegated. Pareto (1935) has presented the circle theory of the elite class that constantly engages in the changes in her attempt to have the grip over the people as a strategy that dominated the military regimes in Nigeria by constantly engaging in local government creation exercise without corresponding provision for their sustainability. Pareto (1935) had earlier sounded a warning to all elite that “there are problems that economics and politics cannot solve”. However, the military perception and notion were that the creation of more local governments will bring to an end the people’s agitation for self- actualization and legalized military in governance. It however turned out to be myth not reality and their actions further helped to polarize already tensed environment of the Nigeria political landscape. These councils have continued to create problems for state governments in the federation. It is no longer news that many of the states have not paid their local government staff salaries for months. Therefore, the elite theory extricated in this study clearly explain the reason behind this ugly incidence found in our rural communities of Delta and Edo States. The bulk of the elites constitute the military head of states, presidents, governors, local government chairmen, councilors among others who continue to manipulate the constitution to suit their interest and also engage in swindling monies met for local government to execute their functions for personal aggrandizement under the guise of faulty constitutional arrangement perpetrated by them with arbitrary execution of decisions to perpetually make local government an appendage of their office instead of a distinct tier status.

## **Conclusion**

The three tier government system adopted by Nigeria as a nation is done to ensure that everyone within the state is covered by the presence of government. Suffice it to be mentioned that aside these three super structure there are several agencies created by

government even with same functions that these super structures are meant to do. This leaves one with a continuous question of why then is this persistent dilapidating situations that seems to have come to stay or enjoy undue permanency in the fabrics of the society. Thus, it is too obvious that institutions or organs created by government are just a shadow or next to nothing if the human resources or materials in them are exhibiting anti purpose of creation code of conduct. It is highly incontrovertible that these human resources otherwise refer to as the elite are the primary element or forces why underdevelopment has truly become the norm of the Nigeria society and we cannot fail to mention that a government that is invincible among her people is an express invitation to anarchy because the people cannot continue to bear a piperonal acephalous system or state that the elite has come to create or produce in the nation that is a disservice to growth and development. The elite with alter dismay has turn and redefined the ideology of government to mean self gratification with impunity that shows it doesn't matter to them if the system is failing. Nigeria a country is perpetually ailing and hope seems to be evasive because every regime formed or crated has always been worst than the previous ones, leaving people in the continuous wandering in the wilderness of leadership disaster.

### **Recommendations**

- i. The idea of community development as a self help or initiatives policy that enable or make demands for citizen to be out to build their fathers land or home should be adopted. It therefore mean there should be continous sensitization of all by opinion leaders,NGOs and any oportuned personnels in society to make people not to over relaxin community building, however they can with the little resources in their hands should be deployed.
- ii. Constitutional Reform/Repeal the cry for constitutional reform or laws that will enables the true functionally of the local government cannot be over emphasised. Local governmnet reform should be carried out to shade it from the elites overwhelming force.
- iii. Freedom of information act. The freedom of information act enacted in 2010 should be in continous used or utilize. Government activities, expenditures and disbursement should not be opaque to give citizens the rich opportunities to call for leadership accountability.
- iv. The study was carried out on only two states of the federation. It is suggested that further study should be carried out on the other states for holistic and comprehensive analysis and results instead of the partial derives of two states

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## SANCTIONS AS TOOL FOR STRATEGIC DETERRENCE: AN ASSESSMENT OF TARGETED SANCTIONS IN RUSSIA

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**Abstract:** *Strategic deterrence through the use of sanctions in the international system is gaining support among major players. This is despite widespread scepticism over the instrument's efficacy, as seen by the widespread opposition to its use immediately following its implementation in Iraq in the immediate aftermath of the end of the Cold War. The takeover of Ukraine is the first opportunity since World War II to analyse the results of sanctions on a major power and permanent member of the UN Security Council. The issue raises the question of whether or not sanctions on Russia would be an effective strategy in stopping their aggressiveness in Ukraine. In this article, we analyse how targeted sanctions against Russia's economy can alter the course of the conflict in Ukraine. Given the energy linkages that most of these governments have with Russia, we see the sanctions' proponents the United States, the European Union, and the Baltic States suffering increasingly negative consequences. We also contextualise the acts of sanction busters empowered by the United States' inability to develop a consensus at the United Nations General Assembly and by Russia's veto to thwart the criminalization of their conduct in the United Nations Security Council. Despite this, it is becoming apparent that Russia's economy is feeling the effects of the sanctions, which is substantially diminishing their ability to properly prosecute the war. Methodologically, the study used a historical approach, meaning that it relied on information gathered from previously existing sources including encyclopaedias, encyclopaedia articles, and news stories. In conclusion, the data appears to bolster the view that the possible risk spawned in the harsh reality of targeted or comprehensive sanctions on Russia given the extent of the punishment regime is an acceptable price for the maintenance of the rule-based international order.*

**Keyword:** *Targeted, sanctions, deterrence, Busters, United Nations*

### Introduction

When major powers' traditional tools for dealing with international troublemakers like war and hard force diplomacy fail them, they increasingly turn to sanctions as their primary method of influence. The use of sanctions has increased significantly since the end of the cold war, despite the fact that they have not been able to stop the psychopathic tendencies and despotism of actors like Saddam Hussein of Iraq, who annexed Kuwait, Kim Jong-government in North Korea, or Ayatollah Ali Khamenei, the recalcitrant dictator and supreme leader of Iran. Empirical research undertaken by Hufbauer (cited in Sitt, et al., 2010) found that fines were only partially successful in about 34% of cases that were not completely probed. As a result, sanctions cannot be cast out as a fully ineffectual weapon



for maintaining international peace and security. So, we reasoned that the conditions surrounding its deployment, its legality, the capacity of the sanctioning authority and the sanctioned state, and the degree of acceptability may really determine the efficacy of sanctions, which constituted the foundation of our study. Given this, we will assess how well punishment functions as a deterrence after considering events like the 2014 annexation of Crimea. Sanctions are not new; they were used in the USSR, for example, when the West put technological penalties on the country that served to keep it technologically behind the West (Aslund & Snegovaya, 2021). This played a crucial role in the approval of the Jackson-Vanik Amendment to the United States Trade Act in 1974. For the United States, it was critical that the Soviet Union end its restriction on the emigration of Russian Jews before normal commercial relations could be resumed. Naturally, the Soviets caved in to the amendment's demands and allowed a mass exodus of Soviet Jews, returning things to the way they were before the amendment was passed (Aslund & Snegovaya, 2021). There has been a wave of Western sanctions on Russia since 2014 due to Russia's persistent breaches of international accords and its annexation of Crimea. There have been instances where the United States has unilaterally imposed sanctions with the support of her Western allies. None of the proposals, however, have been adopted globally or by the United Nations (UN). Russia and Ukraine have been at war since 2014, when Putin launched an invasion of Ukraine he dubbed a "special military operation" despite Western sanctions. Taking into account the effect Western sanctions have had on civilian entities entitled to protection under international law and the actions of emerging alliances and sanction busters, we hope this evaluation will help us determine the efficacy of sanctions as a deterrence strategy against Russian aggression.

## **Conceptual and theoretical Discourse**

### *Sanctions*

Sanctions, according to the Swedish Ministry of Foreign Affairs (2007), help spread democracy and keep the peace across the world. These kinds of coercive measures are intended to supplement more passive strategies like diplomacy and development aid, which are aimed at the same ends. A state, organization, or its leaders may be prevented from doing action if penalties are imposed on them. They have been mandated by a worldwide agreement among nations. This is done because the international community generally favors economic and political measures as peaceful means to influence the behavior of a State, group, or individual. They can be used to persuade a government to end systematic abuse of human rights, to introduce democratic changes, or to alter the policies of a government that threatens international stability. Because they are regulated by law, sanctions represent a distinctive method of conducting foreign policy. They're intricately designed, and there are repercussions for disobeying them. These sanctions are supposed to be temporary and will be reviewed often to account for any shifts. They are to be torn down once their function has been fulfilled (Swedish Ministry for Foreign Affairs, 2007). Because it offers important background for sanctions—including a discussion of their scope and length—the aforementioned explanation from the Swedish Ministry of Foreign Affairs was chosen. Even if not everyone here agrees with the previous definition, we feel it is important to demonstrate the range of opinions that inform this study. The definition's claim that sanctions are used to bolster international security is, however, incorrect, in our

opinion. This thesis argues differently, elaborating on how sanctions may be counterproductive to peace in some contexts and how they have historically failed to achieve global stability.

It may also be confusing to understand that penalties are a valid part of the legal system. We agree that they are legitimate instruments under the UN Charter, but the imposition of economic penalties violates the "right to live in dignity" established in the Universal Declaration of Human Rights. We argue that the adverse effects and traits typically associated with economic sanctions put the citizens of a target state in danger and deprive them of the possibility to live in dignity. According to Margaret P. Doxey, sanctions are "penalties imposed or applied as a stated result of the target's failure to maintain international standards or international duties" (Doxey, 1996, p.9). It is a harsh assumption to make that every person from the sanctioned zone is personally liable for the actions that resulted in the sanctions. Such generalizations are used to tarnish the reputations of innocent bystanders and provide cover for those who might otherwise resort to physical action. Penalties have been defined as a "broad spectrum of remedies decided individually or collectively by States against the perpetrator of an internationally unlawful activity" with the goal of ensuring the observance and fulfilment of a right or duty (Decaux, 2008, p.249). According to Laura Forlati Picchio, sanctions "would be any activity that is adverse to the interests of the State at fault, that serves the purpose of compensation, punishment, or potentially prevention and that is spelled out in or simply not barred by international law." As cited on page 249 of Decaux (2008). As an alternative to using physical force, sanctions are an attempt to persuade the other party to change their behavior. Sanctions can have unintended, devastating consequences for people's lives that are difficult to foresee and impossible to repair. Yet another success is that they have managed to change the strategy of their opponents. Sanctions and the threat of sanctions have been shown effective in addressing a variety of concerns, including human rights violations, violent regime change, and the proliferation of nuclear, chemical, and biological weapons (Shane, 2004).

Our argument is that no matter how well-intentioned the entities implementing the sanctions may be, any action or measure that has serious humanitarian effects on the civilian population is wrong, regardless of whether or not it fits into one of the categories listed above. Financial sanctions have often failed to achieve their intended results (Wallenstein, 2000, pp.5-6). In reality, they exacerbate the hardships of innocent bystanders, whose plights they otherwise intend to ease.

### **Objectives and Purposes of Sanctions**

Sanctions are a tool utilized widely in the international system to accomplish a wide range of aims. Bolton (2019) argues that sanctions may be used to deter the spread of weapons of mass destruction (WMD), punish those responsible for human rights abuses, advance national security goals, and make the world a safer place. The purposes of penalties may be broken down into three groups, according to Sitt. That is, in addition to upholding peace treaties and meeting treaty obligations, the sanctioning state's domestic and worldwide prestige are secondary considerations. And as a tertiary goal, is maintaining global order and structure (Sitt et al. 2010; pages 21–25). Sanctioning states or organizations requires strong evidence of disapproval for the actions being punished. Such a sequence of action is obviously more than just words or a resolution. One of its goals is to satisfy the

preferences of a group of people at home or to prevent the application of a moral judgement. All of these groups, as described by Sitt et al. (2010), are driven by the wish to alter policy, exact retribution, prevent further instability in a certain area, or deter the outbreak of war. Sanctions are used primarily to encourage new course corrections. Despite their permanence, actions can sometimes be reversed. A regime change is a radical alteration in government policies. This occurs when a sizeable portion of the world community sees a state's behavior as so abhorrent and intolerable that the only remedy is to install new leadership.

The contrary is true when an action is highly condemned, such as in a penalty. A guilty verdict from an international criminal court might be handed down as punishment for disobedient actors. Sanctions can also be used for containment, which entails placing restrictions on trade with the sanctioned nation. The ultimate goal of any form of punishment is to prevent future offences. The efficacy of punishments is determined by how much they lessen the possibility that a state would engage in the illegal behaviour again. It is challenging to evaluate the usefulness of mechanisms like sanctions and international criminal courts that are used as part of the deterrence logic (Sitt, 2010).

### **The Nexus between Deterrence and Sanctions**

Deterrence is just one part of many other diplomatic plans. In recent years, the concept's focus has switched away from the nuclear threat and toward the calculation of conventional military deterrence. According to Mueller (2018), deterrence occurs when an individual or group decides not to pursue an activity because they fear unfavorable repercussions. Although the tool has a wide range of potential uses, such as nuclear crisis management and crime prevention (Kleiman, 2009), the focus of this article is on its application in averting armed conflict between nations. It is not enough to make war look costly or risky; deterrence rests on making war appear more unwanted than the alternatives (Mueller, 2021). Most countries believe the current state of affairs is acceptable, making deterrence a simple matter if the enemy shares this view. There is always the possibility that some really desperate administration or some exceptionally bellicose individual may choose war anyhow. When presented with a variety of undesirable choices, such as peace or war, Japan in 1941 is a paradigmatic illustration of this phenomenon (Mueller, 2021, p.48). It is easy to see how states may make aggression look less appealing than other choices. The two main tactics most commonly associated with deterrence are "increasing the expected cost of aggression through threats of punishments (punitive deterrence) and making it appear unlikely that aggression will be successful in achieving its objectives (deterrence by denial)," where "aggression" can be defined as "the appearance of aggression's success in achieving its objectives," regardless of the (Mueller, 2021, p.55)

Foreign policy tools such as sanctions are intrinsically linked to the idea of deterrence. Using Rhodesia sanctions as an example, Giumelli argues that sanctions may have two effects: punishing the guilty and intimidating the innocent (Giumelli, 2021) In both cases, sanctions are applied on the naïve belief that doing so would provide a political advantage proportional to the severity of the economic pain placed on the receiver. There are two perspectives on using physical pain as a form of punishment from the perspective of deterrence. Penalties are put in place to deter bad behavior, such as an escalation of a fight, from happening again. Second, punishment for an offender alters the perception of the

repercussions of that offender's acts by other actors (or potential targets). In both cases, the receivers are threatened with negative effects if the sender does not stop the recipient from engaging in inappropriate behavior. In this context, international sanctions are seen largely as a political instrument on the global stage (Hufbauer et al. 2007). The first known example of such a decree is the Athens-issued Megarian edict, which is described in Thucydides' account of the Peloponnesian wars. The towns of the Delian league imposed a complete trade ban on Megara as part of the punishments. All around the world, armies of the Middle Ages utilized the same tactics to besiege castles and cities as they did when they fought for supremacy (Gravett, 2007). In light of this, it is possible that the economic damage on the inhabitants may be avoided if the rulers chose to open the gates and agree to the (often fluctuating) conditions of the besiegers. Although states were given significant roles in international politics after the 1648 Treaty of Westphalia, the practice of limiting trade for political reasons remained. The purpose of the United States' threat of sanctions against France and Britain was to "convince Great Britain and France to rethink their harsh decision on seizing neutral American ships" (Guimelli, 2011). (Frankel, 1982 cited in Giumelli, 2021). The use of sanctions, however, was also widely acknowledged as a tool of shaping the future behavior of states. Foley remembered President Wilson's suggestion that sanctions be implemented as a "silent and deadly treatment" to avert repeat hostilities in the debates that followed World War I. (Foley cited in Giumelli, 2021).

To discourage and, ideally, prohibit hostile behaviors from any state, Wilson advocated that they be subject to sanctions in the form of an all-encompassing embargo. To rephrase, the League of Nations' collective security system of sanctions was the progenitor of deterrent methods before the nuclear age. Following the failure of sanctions-based deterrence in halting Italian colonial expansion into Abyssinia in 1936, nuclear weapons were able to completely destroy the basis of international law governing such attempts (Strang, 2013). Studies reveal that sanctions were used during the Cold War; nonetheless, they were linked to deterrence for undesirable behaviors that constituted a smaller threat compared to nuclear deterrence. Case studies in a fundamental study on sanctions published in 1990 reveal that sanctions have been used often to promote democratic processes, to resist Apartheid, and to destabilize governments, among many other goals (Hufbauer et al. 1990). The idea behind deterrence is that governments will be less inclined to participate in certain behaviors if they are punished for doing so. Foreign policy instruments, or sanctions, have traditionally been used by nations against other states, but curiously, events constantly altering the form and use of sanctions as weapon for deterrence (or by similar political actors before the Treaty of Westphalia, such as cities, empires, and the like).

### **Historical Perspective on Sanctions**

Using economic penalties as a tool of statecraft has been used since at least the 5th century. They were very much like the punishments Athens handed down on Megara in 432 B.C.13 (Giumelli, 2021). At the time, a politician named Pericles in Athens forbade trade with the Megara Empire because of its backing for Sparta, a City-State that was an enemy of the Athenian Empire. With this threat, Athens made it clear that it would take action against anybody who challenged its authority in any way, even by military force (Thucydides, 1972, p.118). Woodrow Wilson, the then-President of the United States, issued a

proclamation after World War One that formalized the use of sanctions in international politics. He suggested sanctions be used by the League of Nations to assist maintain international peace. Sanctions, in his view, are "a quiet, silent, fatal therapy" (Gordon, 1999, p.124). Throughout the whole century, sanctions were rarely imposed. During the Cold War, both the Soviet Union and the United States collaborated with and backed corrupt and cruel dictators in an effort to get an upper hand over their opponent (Shane, 2004). Because of this tactic, sanctions were both ineffective and unpopular. Prior to the fall of the Berlin Wall in 1989, the United Nations only recognized Rhodesia and South Africa. As a new era began after the end of the Cold War, sanctions were withdrawn from a new set of countries.

Civil wars have broken out in a number of countries, as detailed by Hughes (2007). These include Iraq in 1990, the former Yugoslavia in 1991, 1992, and 1998, Libya in 1992, Liberia in 1992, Somalia in 1992, parts of Cambodia in 1992, Haiti in 1993, parts of Angola in 1993, 1997, and 1998, Rwanda in 1994, Sudan in 1996, Sierra Leone in 1997, Afghanistan in 1999, and others. There were several factors that led to their exclusion, including foreign and internal enmity, the suppression of democracy, and their support for terrorism (Chan and Drury, 2000). Now that the United States has acquired its current degree of global preeminence, its unilateral sanctions have more weight. Scholars like Haass (1998) and Delevic (1998) argue that the United States should use unilateral sanctions more often in order to protect U.S. economic interests and because it is unwilling to use military force to address economic, moral, and political concerns. Analysis from 1998 indicates that "two-thirds of the world's population was subject to some sort of US sanctions" (Dunne, 1998, p.2).

However, the United States isn't the only country to impose financial penalties; the European Union has also supported its own set of sanctions. Several parties and professionals have argued that economic sanctions shouldn't be utilized because of the harm they would cause to civilian populations. Hufbauer, Schott, and Elliott's (1990) investigation on sanctions was extremely comprehensive; the authors examined 116 case studies spanning from the beginning of the twentieth century to the end of the Cold War. The most important finding from their study was that fines had a poor track record in terms of performance, causation, and effect (Hufbauer, Schott, and Elliott, 1990). Some people thought the original UN sanctions on South Africa and Rhodesia had some kind of impact. The effectiveness of using sanctions to push these nations into modifying their behavior has contributed significantly to the prominence that sanctions presently enjoy in international politics. If I may say so, it is astounding how effective "normal" sanctions were in bringing down the apartheid regime. The success of sanctions on the apartheid regime has been trumpeted, although experts have raised serious doubts about these claims. Some, like Philip Levy, argue that the events of South Africa can never happen again (Levy, 1999 p.10-12). Attempting to extrapolate the results of sanctions on the apartheid regime in South Africa to any other situation would be absurd. Legal positivists agree with Levy that sanctions are a violation of human rights and the UN declaration of rights, but they argue that Levy is wrong to draw this conclusion. Both are said to be incoherent and mutually contradictory. For her part, Joy Gordon supports this motion since she considers economic constraints to be a kind of warfare (Gordon, 1999, p.149). The conservative Heritage Foundation in the United States is another "think tank" that is against sanctions. Instead, it emphasizes the risks of falling into the trap of employing sanctions as a key tool

of foreign policy and warns against the potential harm that might befall everybody involved. The UN's analysis of sanctions from the perspective of human rights and the integration of legal principles of international law may be found in the "Bossuyt Report," which was authored by a researcher with the organization. The document criticizes how the United Nations General Assembly and Security Council typically consider sanctions, saying that "hardly any reference to human rights and humanitarian law principles" is made (Bossuyt, 2000, p.4).

### General Information about UN Sanctions

By the time the Cold War ended in 1990, the United Nations had established just two sanctions regimes. "(Gowlland-Debbas, 2004)" Rhodesia's white minority rule under Ian Smith prompted the country's 1965 Unilateral Declaration of Independence and the imposition of the world's first compulsory sanctions. The United Nations Security Council passed Resolution 253 (1968), which imposed an absolute trade embargo on Rhodesia and made it unlawful for any country to carry commodities into or out of Rhodesia. In the wake of this, mandatory sanctions were imposed on the apartheid government in South Africa in 1977. (UNSCR 418, 1977). For example, resolution 418 (1977) banned the sale of weapons to the government of South Africa. After the Cold War ended in the late 1980s and early 1990s, ties between the United States and the Soviet Union (later renamed the Russian Federation) improved, allowing Chapter VII of the United Nations Charter to function more efficiently. On August 2, 1990, Iraq invaded Kuwait, ushering in a new era in international politics that culminated in resolution 661 of 1990 from the Security Council. Reference: (Gordon et al., 2019). This ruling effectively banned all trade between Iraq and any other country, including the prohibition of the export of items manufactured in Iraq or Kuwait and the prohibition of all imports into Iraq. Many people felt that the sanctions system put an undue burden on regular Iraqis after Saddam Hussein was deposed in 2003. (Weiss, et al, 1997). There were reports of a huge increase in disease and hunger as a result of sanctions imposed on the country (Gordon et al, 2019).

Because of the military coup in Iraq the previous year and its similarity to the one in Haiti, Chapter VII sanctions were enacted that year. The shipment of petroleum products and military equipment to Haiti was prohibited in 1993 by Resolution 841. (Gordon et al, 2019). Although the sanctions were intended to target the Iraqi government specifically, they were widely regarded to have contributed significantly to the rising infant mortality rate in the country. UN Secretary-General Boutros Boutros-Ghali called sanctions a "blunt instrument" in a 1995 report to the Security Council. In addition, he questioned if it was moral to harm so many people to influence political leaders. His findings include that the "Security Council's greatly heightened use of this instrument [Article 41] has brought to light a number of issues, referring particularly to the purposes of sanctions, the monitoring of their implementation and efficacy, and their unintended effects." Multiple studies (Gordon et al., 2019) have found tha.

**Table 1**

Regime	Authorizing Resolution	Start Date	End Date	Situation/Motivation
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Rhodesia	SCR 253(1968)	05/1968	12/1979	Declaration of independence by white minority regime in Rhodesia
South Africa	SCR 421(1977)	12/1977	05/1994	Apartheid regime in South Africa
Iraq	SCR 661 (1990)	08/1990	05/2003	Iraqi invasion of Kuwait
Yugoslavia	SCR 713 (1991)	09/1991	10/1991	Outbreak of fighting in Republic of Yugoslavia
Libya	SCR 748(1992)	03/1992	09/2003	Bombing of Pan Am Flight 103 over Lockerbie
Liberia	SCR 985 (1995)	11/1992	03/1994	Liberia civil war
Haiti	SCR 841 (1993)	06/1993	09/1994	Military coup against Aristide government
Angola	SCR 864 (1993)	09/1993	12/2002	Deterioration of internal political situation
Rwanda	SCR 1011 (1995)	08/1995	07/2008	Instability in Rwanda after the civil war
Sierra Leone	SCR 1132 (1997)	10/1997	09/2010	Sierra Leone civil war
Kosovo	SCR 1160 (1998)	03/1998	09/2001	Violence by Serbian forces in Kosovo; terrorist acts of Kosovo Liberation Army
Eritrea/Ethiopia	SCR 1298 (2000)	05/2000	05/2001	Hostilities between Eritrea and Ethiopia
Liberia	SCR 1343 (2001)	03/2001	12/2001	Liberian support for rebels in Sierra Leone
Iran	SCR 1343 (2001)	12/2006	01/2016	Iran's failure to halt its uranium enrichment programme
Cote d'Ivoire	SCR 1572 (2004)	11/2004	06/2016	Internal hostilities
<b>CURRENT SANCTION REGIMES</b>				
Regime	Sanctioning Resolution		Start Date	Situation/motivation
Somalia	SCR 733 (1992)		01/1992	Escalating violence in Somalia
Al-Qaida, ISIL	SCR 1267 (1999)		10/1999	International terrorism
Iraq	SCR 1483 (2003)		05/2003	Deposed Iraqi regime
Liberia	SCR 1521 (2003)		12/2003	Continuing internal violence
Democratic Republic of Congo	SCR 1493 (2003)		07/2003	Internal hostilities and the exploitation of natural resources
Sudan	SCR 1556 (2004)		10/2004	Atrocities committed by Janjaweed militia
Lebanon	SCR 1636 (2005)		10/2005	Investigations of ICC into assassination of Rafiq Hariri
DPRK	SCR 1718 (2006)		10/2006	DPRK nuclear programme
Libyan Arab Jamahiriya	SCR 1970 (2011)		10/2011	Conflict in Libya and use of force against civilians
Afghanistan	SCR 1988 (2011)		06/2011	Taliban activities in Afghanistan
Guinea-Bissau	SCR 2048 (2012)		05/2012	Military coup against democratically elected government
Central African Republic	SCR 2127 (2013)		12/2013	Breakdown of law and order, and intersectarian tensions in CAR
Yemen	SCR 2140 (2014)		03/2015	Conflict between Government of Republic of South Sudan and opposition forces

Source: Author's compilation from Gowlland-Debbas, (2004); Bolton, (2021)

## **The Legal Basis of UN Sanctions**

The Charter is a multilateral treaty adopted by 193 states that serves as one of the most significant foundations of international law. As stated in the Charter's Preamble, one of the fundamental goals of the United Nations is to "establish conditions under which justice and respect for the duties originating from treaties and other sources of international law can be maintained" (UN Charter, Preamble, para 3.). A UN Member State's Charter commitments take precedence over its responsibilities under any other international treaty, as stated in Article 103 of the Charter. It will become clear that the compliance of Member States with United Nations sanctions regimes is critically dependent on the recognition of the priority of United Nations responsibilities above other international commitments. United Nations Charter Article 7(1) makes the Security Council, one of the UN's core organizations, responsible for adopting international sanctions regimes. According to Article 24(1) and (2) of the UN Charter, the Council may use the powers provided to it in Chapters VI, VII, VIII, and XII in order to fulfil its responsibility to maintain international security. Threats to peace, breaches of peace, and acts of aggression are discussed in Chapter VII of the Charter, which may result in the implementation of sanctions. In instance, Article 41 of the Charter grants the Security Council the ability to impose mandatory measures, including "the entire or partial severance of commercial relations," that do not include the use of armed force. However, rather than specifying a specific article of the Charter, like Article 41, most resolutions imposing sanctions merely declare that they were authorized under Chapter VII of the Charter.

For Chapter VII actions to be taken, the Security Council must first make the determination that a "threat to the peace, breach of the peace, or act of aggression" exists, as required by Article 39 of the Charter. Given the ambiguity of the phrase "threat to the peace," there has been extensive debate concerning the circumstances under which the Security Council may resort to force. While Chapter VII resolutions are technically determinations under Article 41, in practice it is accepted that they include an implicit conclusion under Article 39. (UNSC 54, 1948). It is essential for the execution of sanctions regimes that Member States be obligated to execute measures agreed by the Security Council, as stated in Article 41. Article 25 of the Charter states that all Member States must adhere to and carry out all Security Council resolutions. In accordance with a ruling by the International Court of Justice (ICJ), Security Council resolutions have binding legal effect (Gordon et al, 2019). As a result, the UNSC has the power to ensure that its members carry out their resolutions. In addition, Article 103 of the Charter states that the Charter's obligations (including those imposed by a Security Council resolution) would have precedence over obligations under any other international treaty.

Although it has been claimed that the United Nations Security Council is "unbound by law" (Oosthuizen, 1999), the vast majority of academics now accept that the Council's decision-making ability is constrained. Since there is no judicial review system at the UN level, the limits of these freedoms are not well defined (Farrall, 2007) The inability to directly dispute UN judgments in a recognized legal setting has been a major bone of contention with UN sanctions for quite some time. This matter was crucial in the European Court of Justice case known as *Kadi I* since it included one of the main issues (ECJ). This was found to be the case (*Kadi & Al Barakaat*, 2008). However, it is important to briefly discuss the most hotly contested limitations on the Security Council's capacity to impose sanctions under



Article 41 of the Charter. You may classify them into three groups: (i) those that rely on the ultra vires clause of the Charter; (ii) those that rely on the jus cogens rules of customary international law; and (iii) those that rely on the state accountability regime on countermeasures (the countermeasures argument).

### **Types of sanctions**

Opone & Kelikuma (2022) provided a hint as to the types of sanctions that could be implemented by defining them as "punitive actions such as ban, embargo, prohibition, restriction, boycott, and barrier in terms of political, economic, military, or even diplomatic terms against a country or institution to elicit favorable response." It should be noted, however, that there is a wide range of categories to which these sanctions might be grouped. Arms embargoes, admissions restrictions (such as visa or travel bans), and other measures as deemed appropriate make up the other 49 types of penalties that fall under these headings (European Commission, 2008). The Strategic Planning Unit of the Executive Office of the UN Secretary General noted in 1999 that there is widespread agreement among nations that, when dealing with serious violations of international law, the international community requires a means of coercion somewhere between diplomatic rebuke and military conflict. Alternatives to punishments for this function do not exist (Mack and Khan, 1999, p.104). Between more passive diplomatic strategies and the use of force, sanctions are considered as a middle ground. Since this is the case, sanctions can be used to prevent conflict in the event that diplomacy fails.

#### *Full-Fledged Sanctions*

When put into effect, comprehensive economic sanctions isolate the sanctioned state from all kinds of international trade, finance, and service provision (Doxey, 1996, p.139). Broad economic sanctions have the effect of cutting off a country's access to international markets and other sources of money and assistance, with the exception of humanitarian necessity (Doxey, 1996, pp.139-40). Rhodesia, South Africa, Yugoslavia, and Iraq are the only countries other than Ukraine that have been hit with such severe economic sanctions since the United Nations' foundation (House of Lords, 2006-07, p.14). With the assistance of the World Bank and the International Monetary Fund, the United States and the European Union have joined the United Nations (UN) in imposing harsh sanctions (IMF). Russia has been hit hard by the severe economic sanctions imposed by the United States and the European Union with the support of the International Monetary Fund, the World Bank, and other international organizations.

Even though significant economic sanctions were imposed on both Rhodesia and South Africa, the purpose of the penalties was only partially realized in both situations (Watson Institute for International Studies, 2004). Most of Iraq's concessions were obtained via the use of force and sanctions. Global economic sanctions may not have been successful in attaining crucial goals if they were not preceded by or supported by the threat or use of force (Watson institute for international studies, 2004). It wasn't until the late 1990s that politicians and scholars like Baldwin (1985), Tostenson and Bull (2002), and Andreas (1999) began to challenge the effectiveness of comprehensive sanctions (2005). Humanitarian effects were a primary target of critics because of how catastrophic they were for civilian populations. "I do not think that comprehensive economic sanctions should

ever be imposed, on any nation, ever again," Carne Ross, the UK's first secretary at the UN from 1999 to 2003, said. "I think that comprehensive economic sanctions should never be imposed, on any country, ever again" (House of Lords, 2006-07: 16). The harsh economic realities that the Iraqi people were prepared to confront is directly correlated to the almost half a million fatalities that have been attributed to the punishment system (Mueller, 2021). Hans Von Sponeck, the UN Humanitarian Coordinator for Iraq between 1998 and 2000, disagreed with Carne Ross, saying that humanitarian exclusions were adequate to "lower the enormity of the human costs of comprehensive economic sanctions sufficiently to make its usage legitimate" (House of Lords, 2006-07, p.16). By allowing for humanitarian exemptions, Von Sponeck suggests, monetary sanctions will appear less brutal than they actually are. Dr. Kim Howells, a British politician, also argues in favour of economic sanctions by saying: I do not think we can abandon the weapon of comprehensive sanctions because there will be situations in the future, as I suspect there may even be at the moment, where comprehensive sanctions probably could do more good than damage (House of Lords, 2006-07 p.16).

The Watson Institute concluded that the potential political benefits of imposing such high economic sanctions generally exceed the suffering of people. Full economic penalties not only hinder the work of humanitarian organisations, they also hurt the targeted countries' capacity to produce goods in the long run and unfairly penalise their neighbours, who are often their principal trading partners (Weiss; Cortright; Lopez and Minear, 1997, p.17). In response to these arguments against comprehensive sanctions and rising calls to reform sanctions instruments, the international community has shifted its stance and adopted targeted sanctions directed at policymakers responsible for reprehensible policies and the elites who benefit from and support them.

### *Targeted sanctions*

Recent years have seen what appears to be a major trend toward targeted or "smart" solutions, with hopes that they may improve penalty regimes and policy emphases. This tactic, which is crucial to the application of tailored punishments, is also known as the "individualization of penalties" (Herik, 2017). It is preferable to punish the specific people, groups, or governments responsible for the wrongdoing than generalizing about them. The most prevalent form of these penalties is a complete freeze of the targeted persons' or organizations' financial assets and a ban on any further provision of financial or other resources to or for the benefit of the sanctioned parties (Watson Institute for International Studies, 2004, p.3). This can also be used to prevent a certain group, organization, or person from leaving the nation. Targeted approaches seem to counter the criticisms of blanket sanctions straight on and make intuitive sense as well. Instead of punishing innocent individuals, penalties should be directed at those responsible for the actions that have drawn worldwide condemnation. If this is the case, then individualized sanctions may help lessen the destructive humanitarian effects of blanket sanctions. If well-planned and executed, targeted sanctions will only have an impact on tyrants, demagogues, and rebel leaders and their adherents (Watson Institute for International Studies, 2004, p.3).

While these types of sanctions have just recently been added to the United Nations' "toolbox," they have been in use for quite some time. The evidence presented before the Nuremberg and Tokyo trials was made available to the public. The tribunal set up following WWII was responsible for punishing anyone found culpable for international crimes

(Greppi, 1990, pp.4-7). Article 41 of the UN Charter provides for multilateral sanctions, however they have never been enforced. However, the end of the Cold War heralded a new era in the functioning of the Security Council (Hanhimäki, 2008, p.11). The Council's decision-making process has evolved to the point where more cases involving punishment can be heard. It was necessary to lift the sanctions since they were effective but destructive to the general populace. The obvious results of these sanctions in Iraq have cast doubt on the effectiveness of economic penalties more generally. The United Nations Children's Fund (UNICEF) and the International Committee of the Red Cross (ICRC) have released reports detailing the ongoing crisis, which includes famine and malnutrition, the collapse of the national health care system, the spread of diseases, and power outages (Watson Institute for International Studies, 2004).

The demand for harsher penalties has increased as a result of these concerns. The United Nations Security Council opted to soften the sanctions system in response to public outcry, making it less likely to harm innocent bystanders. The council was able to pass more targeted penalties as a consequence. Once it was determined that an individual or group of persons constituted a bigger threat to international stability than a whole state, sanctions were the next logical step (Gordon, 1999, pp.315-20). Those who are subject to sanctions are sent a clear message that their conduct have been considered worthy of punishment when they are punished for specific behaviors as opposed to an entire category, like internal disputes within a state. It's a monumental deed that might discourage other nations from offering aid to the deposed government. The first time such sanctions were applied was in 1992 against the government of Libya; in 1994 they were used against Raoul Cedras's government in Haiti (Watson Institute for International Studies, 2004, p.13). Yet, targeted penalties have been panned due to their inconsistent application and difficulties in pinpointing the particular individuals who are the targets of the limitations. The United States has mobilized corporations and institutions against Russia in what has been essentially a comprehensive way on several occasions, with the most prominent instances being the crisis in Haiti in 1994 and the current targeted sanctions on Russia. Since no further penalties were enacted by the UN Security Council due to Russia's veto, the current round of sanctions on Russia cannot be considered comprehensive.

### **Theoretical framework**

The collective security theory has been widely lauded for its potential to keep the world stable by providing a framework for collaboration in the face of challenges to the current political order (Palmer & Perkins, 2004). Unfortunately, contrary to popular belief, group efforts do not ensure everyone's safety. In contrast to the "collective action" of a loose confederation of nations, "collective security" requires the concerted effort of the majority of governments in the globe, including all or almost all of the major powers. According to Palmer and Perkins (2004), invoking the principle of collective security when violence occurs is essential if the idea of collective security is to succeed. By embracing this idea, states commit to making the maintenance of international stability a top priority and to being ready to act together in the face of aggression or threats to any nation or the international community at large. This entails being prepared to resort to sanctions when necessary, even if doing so may potentially spark armed conflict (Palmer and Perkins, 2004).

Like its predecessor, the League of Nations, the United Nations is a collective security organisation, although it was founded to fix fundamental problems with the League's design. In contrast to the league, the United Nations welcomes members from any and all countries. All 15 members of the UN Security Council need to agree for a decision to be made, although just the five permanent members need to vote in favour. As opposed to its predecessor, the League, the United Nations may assure compliance with only the consent of its permanent members. To date, the Collective Security principle has only been successfully implemented twice: once in 1950 against North Korea (especially because the Soviet Union boycotted the Security Council session) and once in 1990 during operation desert storm, when Iraq invaded Kuwait and declared Kuwait to be its 19th province and a target of a bombardment that lasted for one thousand hours. In retrospect, Russia didn't put up much of a fight because it happened during a time when the Soviet Union openly sought to align itself with the West. As the primary body charged with maintaining world peace and security, the United Nations Security Council's unanimous backing of the sanctions regime against Iraq was essential to their effective implementation.

The collective security principle has been criticized for a number of shortcomings, especially in light of two nightmare scenarios for order-based collective security. It is possible, according to the "laws of history," that the primary collective security organization will be toppled by dissidents who resent the group's dominant position, or that the organization may disintegrate after it reaches global or regional hegemony (Watson, 1992). The collective security idea failed to function well, for instance, in Kosovo in 1999, when both Russia and China used their veto powers. Humanitarian intervention was NATO's stated justification, but some argue that the UN Security Council didn't have the power to act since it wasn't made up of liberal democratic states (Mihalka, 2021). An intervention by Russia and China in Serbia's internal affairs would cast a poor light on their own countries, which was the fundamental rationale for their opposition (Russia in Chechnya and China in Tibet). While it's true that the collective security concept encourages mutually reinforcing approaches to safety, it may become risky when the security interests of one country are irreconcilable with those of another. Russia's veto of penalties for her invasion of Ukraine raises the question of the continued relevance of collective security in the modern world. The collective security idea has been employed without a consensus at the United Nations in a variety of settings, notwithstanding the ineffectiveness of regional institutions like NATO and the EU's sanctions against Russia. It tried to reach an agreement with Russia on Kosovo and Bosnia in 1999, for example. Russia participated in both peace efforts despite receiving no financial support from the United Nations (Mihalka, 2021). This is so despite the fact that most nations only send soldiers to UN peacekeeping missions because they desperately need the cash.

Ultimately, security groups can effectively counteract external threats. As was previously said, however, world powers outside of such groups cannot avoid the temptation to undermine their acts by exercising their veto in the UN Security Council, albeit still facing sanctions from the powerful collective security organizations and its supporters. Our research is grounded in the U.S. military engagement in Ukraine and the sanction regime in place against Russia since 2014 in response to the annexation of Crimea. There may be loopholes, legitimate concerns, and busters in these punishments. The United Nations is the primary international body whose collective security system is consistent with the use of sanctions to protect global peace, which is vital to keep in mind while looking at the

Russian sanctions regime. The members of the organization have delegated to the Security Council the responsibility of ensuring international peace and security (Article 24, UN Charter). The United Nations use the leeway provided by this Article when imposing sanctions. We then examine how much leeway the United Nations, the United States, and her Western allies have under the collective security framework to ensure that the sanctions on Russia are legal, ethical, and backed by the international community.

**Impact of Targeted Sanctions on Russia: A Perspective Analysis**

The United Nations' involvement in the conflict between Russia and Ukraine has mostly taken the shape of a deterrence strategy, with the UN sending military personnel to important NATO member states that share borders with Russia in Eastern Europe and putting economic sanctions on the country. Nonetheless, this study centers on the significance of sanction with an eye toward proving the legitimacy and effectiveness of consequence in a setting that serves to alleviate the problem. As a result of Russia's annexation of Crimea and Sevastopol in March 2014 (European Commission, 2022) the European Union has taken a number of punitive measures, including sanctions, against Russia. As a result of Russia's recognition of the Donetsk and Luhansk regions of Ukraine, which are not under the jurisdiction of the Ukrainian government, these measures have been increased. To weaken Russia's economic base, cut off access to crucial markets and technologies, and severely constrain the country's military power, sanctions have been imposed on critical individuals and organizations. While the EU's use of these tools is entirely within its diplomatic purview, the United States has responded strongly by pursuing a number of actions, including punishing government officials, private persons with ties to the government, and companies. To provide just one example, Putin's \$630 billion war budget is presently unavailable to the Russian Central Bank since Russia's leading banks were among those that cut links with the international financial system known as SWIFT (Biden, 2002). To provide the impression that the punishment system is broad, the United States has mobilized all of its NATO allies in Europe to shut off Russia's access to global markets. As a result, the world's largest bank, Sberbank, and the world's largest private bank, Alfa Bank, have been struck with severe sanctions, and Russia's access to the international financial system has been severely limited (The White House, 2022). The organizations, governments, and institutions that have helped establish the current system of punishment are detailed in the table below.

**Table 1: Targeted Sanctions On Russia**

Sanctioning country/union	Nature and target	Corporate organization	Nature and target	Corporate organization	Nature and target
United states	Russian banks, tax service, oligarchs, lawmakers, military, oil imports, russian central bank, airlines	Intel	Technology	Volkswagen	Automaker
Japan	Russian companies, banks	Kinross gold	Energya (gold mining)	American express	Finance

	military, oligarchs, belarusian companies, russian central bank				
UK	Russian media, russian central bank, oligarchs, airlines, oil imports	Danfoss	Economy	Mercedes-benz	Automaker
Switzerland	Energy, russian tech. Companies, military, russian central bank	Hexagon	Technology	Toyota	Automaker
Finland	Consumer, logistics	Euronav	Technology	Airbus	Aviation
Australia	Oligarchs	Rabobank	Finance	Mashreqbank	Finance
New Zealand	Military, finance institutions, russian ships	Decathlon	Sports	Ing groe nv	Finance
S.Korea	Military, russian companies	Johnson & Johnson	Consumer products	Exxon mobil	Energy(oil&gas)
Iceland	Russian companies	Heineken	Breweries	Siemens energy ag	Energy(oil&gas)
Bahamas	Russian oligarchs	Carlsberg	Consumer products	Alphabet	Technology
Canada	Oligarchs, russian oil companies	Spotify technology	Media	Canada goose	Consumer goods
Germany	Military, russian companies	Nestle	Consumer products	Visa	Finance
Italy	Russian oligarchs	Enbw	Energy(oil&gas)	Mastercard	Finance
France	Military, russian companies	Renault	Automaker	Boeing	Aviation/technology
Singapore	Russian companies, military, banks,	Eneos	Energy(oil&gas)	Jaguar land rover	Automaker
Norway	Russian companies, finance institution	Bnp paribas		Harley-davidson	Automaker
Taiwan	Russian technology	Weatherford	Energy(oil&gas)	Ford	Automaker
European Union	Energy, russian finance institutions, and central bank, military, russian oligarchs, russian ships, media, airlines, lawmakers	Baker hughes	Energy(oil&gas)	Bmw	Automaker
International chess federation	Ban from hosting and participating in chess sports events	Diamond league	Sports	Nordia asset management	Finance

UEFA	Ban from hosting/participating in all european football games	Schlumberger	Energy(oil&gas)	Total energies	Energy(oil&gas)
FIFA	Ban from all fifa events	Halliburton	Energy(oil&gas)	United parcel	Logistics
Some sanctioned individuals by the u.s, eu and the uk Members of the russian defence sanction by the u.s Aleksy krivoruchko Timor ivanov Yunus-bek evkurov Dmitry bulgakov Yuriy sadovenko Nikolay pankov Ruslan tsalikov Gennady zhdko Viktor zolotov Dmitry shugaev Alexander mikheev By the uk: Roman abromovich Deniss bortnikov Oleg derpaska Peter fradkor Elena georgieva Andrey kostin Dmitri lebdov Alexei millei Boris rotenberg Igor sechim Kirill shamalor Igor shuvalor Yuri slyusar Gernady timchenko Nikolai tolnev Alisher usmanov Vladmirovna tikhonova(putin) Maria vladimirvna vorontsova (putin) Others by the us: Vladimir bogdanov Sergei chemezo Sergei ivanov Suleiman kerinov Vladimir kiriyenko Andrey patrushev Yergeny prigozhin Andrey puchkov Arkady rotenberg By the e.u: Peter aven Mikhail fridman	Radisson hotel group	Hospitality industry	Apple	Technology	
	Merk	Consumer products	Nokia	Technology	
	Rwe	Energy(oil&gas)	Daimler truck	Automaker	
	Unicredit	Finance	General motors	Atomaker	
	Eli-lily	Consumer products	Ab volvo	Automaker	
	Novartis	Consumer products	Aeracp holdings	Aviations	
	Abbvie	Consumer products	Hsbc	Finance	
	Publicis	Media	Volvo cars	Aotomakers	
	Imperial brands	Consumer goods	Bp	Energy(oil &gas)	
	Allianz	Finance	Equinor	Energy(oil &gas)	
	Swiss re	Finance			
	Citi-group	Finance			
	Moneygram	Finance			
	British-american tobacco	Consumer goods			
	A.p. Moller maersk	Logistics			
	Rio tinto	Energy(oil&gas)			
	Starbucks	Consumer goods			
	Yum brands	Consumer goods			
	Macdonalds	Consumeer goods			
	Shell	Energy(oil&gas)			
	Ferrari	Auto&consumer goods			
	Continental	Automakers			
	Boeing	Manufacturers			
	P&g	Consumer goods			
	Kpmg	Finance			
	Tik tok	Technology			
	Netflix	Technology			
Danone	Consumer goods				

Dmitry grigorenko Vladimir kiriyenko	Inditex	Consumer goods
Dmitry konor andrey guvyev	Samsung	Technology
Kostantin knyrik	Microsoft	Technology
Modest kolerov	Airbnb	Consumer goods
Sergev kuikov	Julius bar	Oligarhs
Dmitry mazepin	Ipc	Sports
Andrey melnichenko	Formula one	Sports
Alexei mordashow	Nike	Consumer products
Vadim moschkovich		
Mikhail osersky		
Mikhail polboyarinov		
Ivan sechin		
Andrei skoch yuri soloview		
Alexander aleksadrovich vidyakhin		
Viktor vekselberg		
Alexander ponomarenko		
Violetta prigozhina		
Lyubor prgozhina		
Dmitry pumpyansky		
Galina pumpyansky		
Maxim reshetnikov		
Sergei roldugim		

Author's compilation (2022). Sources: CNBC (2022); Guardian (2022); The White House (2022); U.S Department of State (2022); Funakoshi, Lawson, & Deka (2022)

Despite the initial wave of sanctions put on Russia after the invasion of Crimea, Russia continued to attempt to take the Dombas region and Luhansk of Ukraine via special military operations. We are interested in learning if the punishments had any noticeable impact. If they were so strong, they should have been able to prevent Russia's invasion of Ukraine. How did they manage to save up enough money to invade Ukraine in such a large scale? Though the targeted sanctions appear to be working, it seems some busters and loopholes remain. There is a limit to how much energy Washington can shut off from Russia without significant consequences, as Russia is a leading oil and gas producer and supplier. Furthermore, Russia is the principal supplier of Energy (oil and gas) to the great majority of European states (Asford, 2022). Energy imports from Russia are crucial for several European nations, including North Macedonia, Bosnia and Herzegovina, Moldova, Finland, Latvia, Germany, Bulgaria, Italy, Poland, France, the Netherlands, and Romania. It is difficult to completely implement some of the economic sanctions on them because of the close energy links that most of these countries have with the West. The BRICS initiative, which includes Brazil, Russia, India, China, and South Africa, is another important endeavor in which it participates. As a result, Russians have been rallied to support Russia's aggressiveness in the area, or to take a neutral posture. These busters are enabled by the legal basis upon which the sanctions regime based. The United Nations and its Security Council, the key collective security institution that may mobilize its members for a comprehensive measure against Russia, are divided on the issue. Russia used its veto authority to prevent the Security Council resolution criticizing Russia's effort to annex four



areas of Ukraine from passing, and China, Brazil, India, and Gabon all abstained from voting. However, 10 of the fifteen members voted in favor of the resolution (United Nations, 2022). The plan sought to undo Putin's decision to use force to split off the Ukrainian regions of Luhansk, Donsk, Kherson, and Zaporizhzhya from the rest of the nation. It cannot be emphasized how much the veto allowed countries who disobey sanctions to aid and abet Russia in trade on products that were subject to sanctions. The United States has nonetheless engaged in extensive diplomatic maneuvering to ensure that Western sanctions remain effective, particularly in the aftermath of the military incursion in Ukraine. Russia may have reached a different conclusion about the sanctions the West was going to implement if it had understood the entire nature of those restrictions. Sanctions imposed on Russia's economy after its annexation of Crimea and subsequent military action in Ukraine have had a major impact, as seen in the table above.

As a first step, the favorable foreign credits drastically decreased once 2014's financial limitations were put into place. The amount of foreign loans Russia received fell from 2013 (before sanctions) to 2020 (estimated) to \$470 billion. Russia turned down a loan line worth around a third of its current gross domestic product, or \$479 billion (Aslund & Snegovaya, 2021). Foreign direct investment (FDI) suffered severely as a result of the sanctions, falling from an average of 3.05% of GDP in the years before the sanctions were enacted to an all-time low of 1.39% in the years after. The restrictions implemented prior to the COVID outbreak cost Russia an additional \$169 billion between 2014 and 2020, and the situation has only worsened when a second wave of sanctions was triggered in 2022 with the commencement of Putin's military actions in Ukraine (Aslund & Snegovaya, 2021). Because of the slew of targeted sanctions aimed at significant oligarchs and business groups, the rate of fixed investments has dropped dramatically, as opposed to the annual growth rate of 62% seen during 2010-2013. Every year on average between 2014 and 2020, fixed investment in Russia declined by 0.5%. Russia's GDP decreased from about \$2.3 trillion in 2013 to \$1.5 trillion in 2020 as a direct result of the sanctions, the worst performance drop since the sanctions were introduced in 2022. For example, (Aslund & Snegovaya, 2021). Russia, although feeling the full force of the sanctions, has maintained a number of offensives. Their lackeys have helped them circumvent most Western sanctions, which have had a disastrous effect on the economies of the sanctioning states.

The variety of sanctions and measures is already having a devastating effect on the Russian economy, bringing into sharp relief the fact that the brunt of the suffering will be borne by those who are not directly responsible for state policy, while the targets of the sanctions receive largely insulated protection from their effects. There is a significant tendency to erode the basic rights of the general public, as we learn from the Iraqi sanctions event, and the damage and fatalities reported by civilian populations are more horrific than the tragedy of war itself. After the Security Council imposed severe sanctions on Iraq for its invasion of Kuwait, a cholera outbreak broke out, killing hundreds of thousands of Iraqi children. Russia's sanctions are worldwide and unilateral, which is alarming since it widens the scope of the targeted penalties to encompass new aspects, but their impact on the humanitarian front has not yet been fully realized. This is a potential disaster that has not yet taken place.

## **Conclusion and Way forward**

The purpose of this study was to provide a comprehensive overview of Russia's sanctions policy and its historical context. As international tensions rise and other developing economic blocs, such as the BRICS states, advocate for a shift, we are more able to see the difficulty of enacting a legally binding sanctions regime. We looked at the complicated nature of the Russia sanctions, and we understand that their borders are unclear. When the West provides extensive support and mobilization to ensure that the sanctions are effective, it is inaccurate to call them comprehensive. Sanctions in this situation might be thought of as targeted. The reason for this is that unlike Iraq, which suffered the full force of United Nations sanctions, there was no legal basis for applying such penalties on Iran.

In light of our findings, we think it's crucial to stress that the harshness of sanctions matters for their deterrent effectiveness. While we agree that the safeguards afforded by international law to civilian populations are vital, we also feel that sanctions that do not directly impact civilians are unlikely to inspire internal resistance to the government (Smith, 2004). It appears that the choice to impose tailored sanctions against Russia was a good one, since the country has been able to exert the same level of pressure as would be feasible with broader penalties. Despite the claims that sanctions are just "soft diplomacy" that doesn't work, there are clear indications that they aren't. We do not believe that a nuclear war is likely under the current global circumstances. Sanctioning Russia is better to the alternative of risking a world in which national sovereignty is transgressed at will, and while the sanctions may not have deterred Russia enough to prevent her from continuing the conflict, they will have an impact on the U.S. economy and its allies. It's critical to speak out against the growing acceptance of state-level rule breaking in the international community. China and other recalcitrant actors in the international system are deterred from launching an aggressive military invasion of Taiwan by the effective enforcement of the sanction regime in Russia.

Finally, we propose a change to the United Nations' system for applying sanctions in the hopes that a more democratic United Nations Security Council, with less emphasis on veto, might serve as a model for a reasonable and comprehensive international order. Since "if the Security Council is to acquire the requisite respect in the international system it is imperative that its most significant and influential judgements, those with large-scale life-and-death consequences, be better made, more justified, and better conveyed," this is of paramount importance. The collective security of the United Nations should not prevent it from addressing individual risks inside the international system, especially when doing so would increase the organization's responsiveness, credibility, resilience, and overall quality of service.

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## **ON-THE-JOB TRAINING AND EMPLOYEE PERFORMANCE IN NIGERIAN ELECTRICITY DISTRIBUTION COMPANIES**

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**Abstract:** *The quality of the human resources of any organization is crucial to its success, therefore every organization must seek to improve the quality of its workforce. It is worth noting that Enugu Electricity Distribution Company as an Energy distribution/Maintenance company has many departments such as Operations, Technical, Audit, Communications, Information Technology, Revenue Cycle Services etc. There are some unskilled workers in the operations and technical departments that sometimes find themselves in positions that requires skills, therefore the need for on-the-job training, it is in respect of this that the Researcher decided to look into the impact of on-the-Job training and employee performance in Enugu Electricity distribution Company (EEDC). The objective of the study was to determine the selection procedure, training design, training delivery style and the relationship between employee perception of training on organizational performance. The Study adopted Historical research design. Relevant data for this study was elicited from both primary and secondary sources of data. The population of the study was 100 employees, data was derived through the questionnaire that was distributed. Data was analyzed using the simple percentage table. This research work relied on human capital and the technology-based approach theory. The findings of the study show that on the job training programmes are more likely to enhance employee capability than without. The study recommended that Organizations should always come up with on-the-job training programmes that will enhance efficiency and performance, make the employee to like their job and hence provide employee satisfaction that will also lead to increase in Organizational performance.*

**Keyword:** *On-the-job-training, Employee Performance and Organizations*

### **Introduction**

The history of training in organizations is as old as business organizations itself, this is because the knowledge base or skills of regular employees on the workforce are inadequate for the specialized tasks carried out by organizations. However, the academic study of various forms of training did not start until a century ago, when researchers started a branch

of research under the name of 'vocational training' Salas and Cannon Bowers, (2001). Training programs became widely used by organizations from the start of the 20th century, notably following World War II. They included an increasing number of employees and grew in scope Luo, (2000). By the end of the 1990s, forty percent of the Fortune 500 companies in America for example had a corporate university or learning center, whereas in the 1910's only a few large companies, like Westinghouse, General Electric, and International Harvester, had factory schools that concentrated on teaching technical skills to entry-level workers Meister, (1997). The beginning of training in Nigeria dates back to 1960's, when it was discovered that most of the top positions in government and businesses were held by foreigners Olalere and Adesoji, (2013). After independence, there was a significant human capital gap created by the departure of the whites. In line with the Ashby Commission Recommendations, the Federal Government of Nigeria constituted a Manpower Board in 1962. Olalere and Adesoji, (2013). To train and retrain employees as well as provide orientation to young graduates of universities, the Federal Government of Nigeria thereafter established complementary institutions such as the Centre for Management Development (CMD), Administrative Staff College of Nigeria, Industrial Training Fund (ITF), and Federal Training Centre. Olalere and Adesoji (2013). Staff training and development is a crucial component of human resource management that is now frequently disregarded. This is the case because senior management in most firms only provides nominal support for training since they believe it to be of negligible relevance Ohanyere, Ngige & Jacobs, (2021). Many managers even believe that training is solely a staff obligation for which line managers have no accountability, while others implement training programs because it is the in thing to do Ojoh & Okoh, (2015). We live in a dynamic world where people and things change quickly and continuously. Each day brings advances in technology and working methods. Attitudes, convictions, morals, preferences, and behaviors alter with time.

In fact, there is a knowledge explosion taking place, which necessitates the development of new and better abilities among management and employees alike. To prepare employees for the changing workplace, training and retraining is required. Organizational employees must be trained and developed since a skilled workforce is more likely to be highly motivated, competent, and consequently more productive Ojoh & Okoh, (2015). Workers who confront the obstacles of learning new skills to maintain their proficiency level or get ready for future promotions are more aware of the value of training and development. Organizations are focusing on reforming their learning, organizations and strategies as a result of the urgent requirement to develop skills and capacities. Adaptation to new processes, procedures, technologies, and systems is necessary as a result of changes in both the external and internal organizational contexts. Cartwright, (2012). Employee training may have both a direct and indirect impact on an organization's success. When an organization invests in enhancing the knowledge and skills of its employees, the outcome is a more productive and effective workforce, which is one direct way to view the role of training programs as a measure of boosting both employee and organization competencies. Ohanyere, Ngige & Jacobs, (2021). Organizations indirectly give their staff members the skills they need to accomplish both present and future responsibilities as they train them. Furthermore, training can produce highly happy employees who are motivated by the chance they are provided, which makes them appreciate the investment made in the organizations. Jason (2012) to accomplish this task, organizations will need to devote

resources to ensure that members of staff have the abilities, knowledge, and skills required to work effectively and productively in a dynamic, complex, and competitive environment Kozlowski & Salas, (2016). An organization can gain a competitive edge via training and development by boosting employee retention, reducing accidents, and damages, and addressing unmet employee requirements. Training and development programs offered by an organization benefits both the employee and the organization. Even while no one training program can provide all the benefits, an organization that invests in training and development, develops its competitive edge and enhances its Human Resource capabilities. Consequently, the employee's personal and professional goals are achieved, which increases existing skills and relevance to the organization. The need for training & development is determined by the employee's performance deficiency, computed as: Training & Development need Standard performance – Actual performance Training needs assessment diagnoses present problems and future challenges to be met through training and development. Organizations invest a lot of money in training because they want to take advantage of the talented workforce's enhanced skills, knowledge, and competencies to achieve a competitive edge Shu-Rung & Chun Chieh, (2017).

Different training programs are created by managers in charge of human resource training to position employees to perform their tasks and develop the desired skills, knowledge, and capabilities Lakra, (2016). Such training programmes not only seek to improve employees' familiarity with their jobs, but also assist in promoting increased dedication to the job. In order to prepare their staff to carry out their responsibilities appropriately and in accordance with established standards, organizations design training programs. Huang & Jao, (2016). Training programs are created by organizational professionals to maximize employees' potential. According to Khan and Baloch, (2017), most firms like to invest in various programs that develop new talents through long-term planning. This will assist them in being able to adapt to any future and existing concerns. Therefore, they ensure that they improve the performance of their employees through superior levels of commitment and motivation. It is imperative to note that employees are the backbone of every organization. Employees, regardless of size, are the fundamental determinants of an organization's success or failure. As a result, having a well-trained workforce is critical to ensuring that the workplace has the correct personnel who have been professionally trained and qualified to accomplish their jobs.

However, the issue here is that the economy is very dynamic and that organizations are expected to produce more than they did previously. The management are under pressure from all of this demand, which compels them to put pressure on their employees to increase output and performance. It is important that workers receive the necessary training if they are to be a productive workforce. To boost staff productivity, organizations are consequently required to periodically introduce new employee training programs. There are currently a variety of research studies, both qualitative and prescriptive, focusing on various aspects of training programs as well as their costs and benefits for business organizations. Organizations have come to appreciate the value of investing in their human resources through various forms of training as they have come to realize how crucial training is for their survival in this era's knowledge-intensive and uncertain economy Berge, Sala and Cannon-Bowers, (2001).



Employee development through training and retraining can help an organization maximize its human resource potential Khan, (2011). Despite the clear importance of training, the massive growth in the scope of training programs over time has largely been recognized as normal. Even while training is extremely important, the enormous expansion in the range of training programs over time has generally been accepted as normal. Some human resources departments assume it is unnecessary to assess the significance and appropriateness of training a specific employee at a specific moment. Sometimes, employers send staff members to training with hidden agendas. Mourdoukoutas, (2012) claims that some companies choose not to invest in employee training due to the high costs involved and the fear that they would lose the trained workforce. The Enugu Electricity Distribution Company (EEDC) has a training center located in one of its district offices called Ogui District in Enugu where on-the-job training is regularly conducted, to demonstrate the importance attributed to employee training. Notwithstanding, the Human Resources department of Enugu Electricity Distribution Company (EEDC) still has trouble choosing which employees to train. To assist in the possible improvement of employee training in Enugu Electricity Distribution Company as a Service provider of Electricity Distribution to the entire South East of Nigeria, this research will look into the impact of on-the-job training on employee performance in Enugu Electricity Distribution Company vis-à-vis the processes of employee training and the challenges faced by the Human Resource Department in the selection of employees for training with reference to the employees of Enugu Electricity Distribution Company Enugu.

### **Statement of the Problem**

This research is to deal with on-the-Job training and employee performance in Organizations, it is intended to find out the impact training and development programmes has on employee performance in organizations with reference to Enugu Electricity Distribution Company (EEDC) Enugu. Since Enugu Electricity Distribution Company is an organization responsible for the distribution of electricity and the maintenance of the infrastructures for the distribution around Southeast Nigeria, it encounters numerous problems which ranges from: Grid energy insufficiency and instability, Network infrastructure challenges (overloaded transformers and feeders, obsolete equipment, dilapidated network, lack of automation etc., Tariff challenges and revenue shortfalls (non-cost reflective tariffs, low collection efficiency and huge uncollectable revenue etc.), Metering challenges (huge metering gap, estimated billing, poor meter maintenance etc.), Operational challenges (long feeders, quality of workforce, large operational areas, Energy Theft, Funding Challenges (absence of long term 'patient' capital (equity/debt) to fund capex investment, high cost of borrowing, poor credit history of Discos, etc), Poorly trained Manpower, Poor Customer Data, Health, Safety and Environmental issues, Lack of essential training tools

All Organizations have challenges to face when it comes to training their workforce, many of which are unique to that particular industry, and the Enugu Electricity Distribution Company is not different since it faces multiple regulatory challenges from their regulator Nigeria Electricity Regulatory Commission (NERC), other challenges are staff that have worked in the industry for many years, they can be a resistant to change as new programs and training plans are rolled out, an affinity to long-standing processes or traditions can

cause issues, with staff in the business units, offices or out in the field, access to training can also prove problematic. The success of any organization is largely affected by how its employees see training. The productivity of the organization will increase if the employees are happy with the organization's training practices. Employee perception or attitude is translated into favorable or unfavorable conduct. The criteria used to choose which employees receive training should be methodical and impartial. For training to have a beneficial impact on organizational performance, it must adhere to a set method to guarantee that the correct candidates are sent. To better understand staff performance and on-the-job training at Enugu Electricity Distribution Company, this research is being conducted.

### **Objectives of the Study**

The objective of this study is to determine the effect of on-the-job training and employee performance in Organizations using Enugu Electricity Distribution Company. The specific objectives include the following:

- To establish the application, such as correct selection procedure, training design and good delivery style and effect of on-the-job training on employee performance.
- To determine the relationship between employee perception of training and organizational performance.
- To determine the extent to which on-the-job training affects employee performance.

### *Research Questions*

The following research questions will be critically examined in line with the objectives:

- To what extent does selection procedure, training design and training delivery style affect employee performance in Enugu Electricity Distribution Company?
- What is the relationship between employee perception of training and organizational performance?
- To what extent does on-the-job training affect employee performance?

### *Significance of the Study*

The importance of this study cannot be over-emphasized and may be perceived in the following ways. First and foremost, the study will assist top management in making strategic decisions on training and development for the industry's overall success. Secondly the employees of Enugu Electricity Distribution Company Enugu, who will be utilized as a case study, would also benefit from the study since they will have a sufficient understanding of the value of training and the reasons why it is essential for them to be trained and re-trained. In addition, this study would assist Enugu Electricity Distribution Company's Human Resource Department in the effective planning and implementation of internal and external training methods in all business units to improve performance. Finally, this work will be of immense help to future scholars as a source of information for more research.

### *Scope of the Study*

The Research work will focus on the impact of on-the-job training and employee performance in Organizations. The study will be delimited to training and development programs, employee training design and delivery style, post-training performance evaluation of training on organizational performance. The geographical scope of the Research work will be Enugu Electricity Distribution Company Enugu.

## **Literature Review**

### *Theoretical Framework*

The human capital approach and the technology-based approach are the two main theoretical approaches to employee training. The human capital approach theory, according to Luo, (2000), views training as an investment in human capital. Thus, training is provided only when the benefit from increased productivity outweighs the cost of training. The technology-based approach theory, on the other hand, views training as a process of skill formation. According to this school of thought, the modern era's expanded training is being driven by rapidly changing technologies and work reorganization. Thus, training is provided because it meets an organization's functional needs while also contributing to human capital accumulation or skill formation. These approaches, however, to a large extent overlooked the content of employee training, which could be a resultant effect of training design and training delivery. According to Luo, (2000), employee training confusion manifests itself in four ways. For starters, it has nothing to do with the technical aspects of specific job tasks. Secondly, despite recommendations in many training manuals, prior need analysis is rarely performed for such training. Thirdly, organizations and trainers rarely evaluate the behaviors or outcome changes brought about by such training. When there is an evaluation, it is frequently about how one feels about the training or what one has learned. The evaluation questionnaire is often referred to as a "smile sheet" because trainees frequently respond positively to the questions. However, the training's impact is still unknown. Lastly, the rapid expansion of personal development training has occurred in the absence of scientific evidence linking such training to improved organizational bottom lines.

### *Theoretical Models Linking Training to Organizational Performance*

Considering the increasingly quick changes in technology, goods, and systems, the knowledge and skills that employees acquire through training have become crucial Thang, Quang and Buyens, (2010). Most businesses spend money on training because they think it will lead to improved performance Kozlowski, et al. (2000). The Michigan School concept, often known as the "soft" Human Resource Management, was proposed by Devanna, Formbrun, and Tichy in 1984. The focus of this model is on using the way in which people are treated to forward the organization's strategy. According to its premise, "what is good for the organization is also good for the employee." The purpose of training and other HRM initiatives, according to Devanna, Fombrun, and Tichy (1984), is to improve individual performance, which is thought to result in improved organizational performance. Despite emphasizing the need to encourage and reward employees, the Michigan School approach places the greatest emphasis on managing human resources to meet strategic objectives Pinnington and Edwards, (2000).

A second 'soft' Human Resource Management theoretical model to show how Human Resource Management (HRM) policies can affect employees and organizational outcomes was developed by Guest. The main premise of Guest's model is that employees' performance will increase if an integrated set of HRM practices is used with the aim of accomplishing the defined goals. Additionally, it is presumptive that improved organizational performance will result. The advantage of Guest's model is that it provides a useful analytical framework for examining how HRM practices and organizational performance are related. This is because it expresses pathways that enable simpler, clearer, and more in-depth empirical testing. In order to guarantee the excellent quality of the products and services, the goals of associating personnel with organizational success were also considered crucial by Guest. Therefore, in his view, training policies are essential to HRM and aid in raising strategy integration, staff commitment, adaptability, and quality. He also asserts that good work performance, high problem-solving activity, high-cost effectiveness, low turnover, decreased absences, and fewer complaints are all possible outcomes of successful human resource management. Kozlowski and Klein (2000), established an excellent analytical framework that uses a multi-level approach to training. This model fills the gap between theoretical models for determining, designing, and evaluating training needs and the higher levels at which training must have an effect to support organizational performance Kozlowski & Salas, (1997). The paradigm places a strong emphasis on knowledge transfer. Vertical and horizontal training transfers are the two different sorts. Horizontal transfer concentrates on tested theories of training efficacy, whereas vertical transfer examines the relationship between individual training outcomes and organizational outcomes. The methods for vertical transfer are composition and compilation. While compilation focuses on individual contributions to various or disparate content, composition emphasizes individual contributions to the same subject. According to Thang, Quang, and Buyens, (2010), the normative (hard and soft) models of human resource management are similar. According to these authors, training is included in a collection of HRM policies and is seen as a key and significant policy for developing employees' knowledge, abilities, attitudes, and motivation. The analysis of theoretical models that link training to organizational performance reveals that it expressly recognizes that without employees who possess the necessary information, skills, abilities, behavior, and attitudes, no company can achieve its objectives or organizational strategy. Training is therefore essential for improving employee quality and increasing corporate performance through Human Resources outcomes. Thang, Quang & Buyens, (2010).

### **Conceptual Framework**

Different writers have given their own definitions of training. It is "the systematic learning and development of the knowledge, abilities, and attitudes necessary for employees to successfully carry out a task or job or to enhance performance in the workplace" Tharenou, Saks & Moore, (2007). According to another idea, training primarily aims to provide staff of an organization with the knowledge and skills they need to do their existing duties effectively Jones, George and Hill, (2000). According to some researchers, training is "a structured process to improve behavior, attitude, or knowledge through learning experiences to attain effective performance in any activity or range of activities" Beardwell & Holden, (2001). Its goals are to help people grow as individuals and to meet the

organization's needs now and in the future. These definitions failed to consider how dynamic and shifting the environment is that businesses operate in Okanya, (2008). Additionally, it suggests that training always results in improved organizational performance. Employers constantly need to update their skill sets, and knowledge as skills quickly become outdated due to the rapid advancement of technology and information. This suggests that when planning employee training, the human resources department should take the organization's present and future needs into account as well as the needs of the employees to ensure that everyone is working toward the same long-term goals Holden, (2001). To keep up with the increased competition from the Independent Power Projects in the liberalized global economy, it is evident that training and development is crucial for staff of Private sectors such as the Enugu Electricity Distribution Company.

Whitelaw et al. (2009). recognized that research on training needs is important and higher & general skills have to be added to the crafted curriculum as employees need to be more responsive to the changing environments. Baldwin and Ford, (1988) defined the "Transfer of training" as the degree to which trainees apply knowledge, skills, and attitudes gained in a training context to their jobs. Researchers interested in examining training transfer from novel viewpoints found encouragement in their advice to "adopt a more eclectic orientation to transfer by expanding to new literature bases." Employee training is a program designed to aid employees in acquiring particular skills and information, according to the World Bank. Employees are given the opportunity to use their newly gained information and abilities to enhance their performance on the job World Bank, (2011). Through structured programs, training is established to make sure that employees are taught the skills necessary in the labor market. Therefore, it is crucial for any agency to first understand the demands of employers before beginning this type of training. Take Lebanon as an example, where both public and commercial organizations receive training. Khoury, (2014). This strategy aids in preparing as many workers as possible for better positions through training. Employee-training programs are created for a variety of important factors as well. For instance, training helps an organization retain good talent, which increases revenues. An organization can overcome operational obstacles with outstanding talent. In exchange, the employers set up well-developed strategies, and significant performance milestones are met.

Employee development programs should promote the achievement of corporate strategic direction in addition to being made available to help attract better positions. As employees must be more adaptable to changing circumstances, Whitelaw et al. (2009) highlighted the importance of research on training demands and the necessity to incorporate higher & general skills into the curriculum. This Research will be focused on the various facets of training including Management's attitude towards training, training inputs, quality of training programs and transfer of training to the job. When compared to rival companies, high-level training providers, according to Jaoude, (2015), have been able to achieve three times as much profit. It takes a combination of alignment and planning to have such high impact programs and personnel, though, therefore it is not easy. This entails creating and structuring the organization's training in a way that achieves its main objectives. Additionally, employment market gaps should be used as the basis for staff training. This is accomplished by comparing the abilities that employees already possess to those that are desirable for the position. This method makes it possible to provide training that is focused on employee motivation, skill mastery, and the development of critical thinking abilities.

To develop useful and long-lasting skills in the workforce, training should be based on both practical experience and classroom instruction. Urdinola, (2013). Despite these opposing points of view, all the academics seem to agree on one thing: training is intended to enhance organizational performance.

### **Empirical Framework of Training on Organizational Performance**

Studies have tried to determine whether highly skilled employees are a factor in successful and high-performing businesses Tamkin, (2005). These studies have shown a significant relationship between a highly skilled workforce and organizational performance, which is typically measured by labour productivity. For example, Haskel and Hawkes, (2003) have shown that the top performers in UK manufacturing are hired workers with, on average, an extra qualification level compared to the lower performers. Furthermore, these research discovered that higher skill levels were linked to the creation of better-quality products and supported innovation and more complex production methods Penny, (2005). More productive UK businesses employed more skilled people, according to Haskel, Hawkes, and Pereira's 2003 research. Their research revealed that skills and total factor productivity (TFP) were positively and significantly related, and the skill gap between the top- and bottom-performing firms explained some 8% of the productivity gap. Similarly, Lynch and Black, (1995) found in the US, that an extra year of education raised productivity by between 4.9 and 8.5% in the manufacturing sector and between 5.9 and 12.7% in the services sector. Other research has suggested that a more highly skilled workforce can bring other benefits such as enhancing company survival. According to Reid, (2000), a more trained workforce in the UK is associated with a higher commercial orientation, strategic awareness, tendency to innovate, and ability to maintain competitive edge. Research by the Organization for Economic Co-operation and Development (OECD) on innovation in SMEs in the UK discovered that managers and personnel with greater levels of education were more innovative. Albaladejo and Romijn, (2001). Higher technological complexity and originality were also linked to higher training costs per employee. The study that has had the most sway in this field may have centered on the benefit of investing in education and training as well as the connection between productivity and skills. A clear connection between higher skills and higher productivity has been identified particularly at the intermediate skills level. According to the studies, employers in continental Europe had workforces that were more skilled and knowledgeable, which was directly tied to their higher average levels of labor productivity. Lower skill levels were found to directly affect labor productivity and the types of machinery chosen in manufacturing enterprises in the UK. Keep, Mayhew and Corney, (2002). Evidence suggests that skill levels and innovation performance are related. Tamkin, (2005). Several studies have emphasized the performance benefits that come with increasing training activity. Dearden and Van Reenen, (2000) examined the effects of training on performance for a variety of indicators including value added output, profitability, and wages. They found connections between more training and higher labour productivity across several sectors.

In essence, training was discovered to boost productivity, capital intensity, amount of research and development, and level of skill of the workforce of manufacturing organizations (Penny, 2005). According to a French study (D'Arcimoles, 1997), economic

performance improves with increased training. Training was continuously and clearly connected to increased production and profitability. Raising the proportion of workers trained in an industry by 5% points (say, from the average of 10% to 15%) was associated with a 4% increase in value added per worker and a 1.6% increase in wages. According to Collier et al. (2002), they assert that increasing investment in training reduces the chance of firm closure. For small firms it was the training of craft and manual workers that made the difference, for larger organizations it was the training of professional, clerical and secretarial employees. Others have discovered evidence supporting the positive impact of training on motivation and attitude. Booth and Zoega, (2000) suggested that training fosters a common firm culture and helps attract good quality workers; Green and Felstead et al. (2000) discovered that training had a negative effect on employee turnover.

Organizations throughout the world have been enrolling their staff members in training courses to improve their talents, knowledge, and skills. The majority of them assist with training by creating programs that may be customized to the needs of their employees. However, Khan et al. (2011) opined that some organizations provide their employees the opportunity to participate in training programs created by a different business. As a result, previous studies have shown that internal programs are more effective than external ones when implemented properly. The difference emanates from the fact that the internal programs are designed in such a way that they respond to identified training needs, Jehanzeb & Beshir, (2013). The external programs are designed for a diverse population from different organizations, and thus, they are relatively less effective Khan et al., (2011). According to Aguinis & Kraiger (2009), external programs are not always ineffective. In certain circumstances, they are superior to internal training programs because they convey fresh, important information and skills that a business might not be aware of. As a result, businesses concentrate on giving their employees opportunities to acquire both general and specialized skills when establishing training programs. The courses are designed to provide training in a variety of areas, including sales, technical support, communications, organizational development, management development, career development, and supervisory development training, among others.

The training is given to managers and supervisors as well as lower-level staff, as Valle et al. (2009) stated. The personnel can benefit from several kinds of training. Similarly, managers are also given management training to help them develop the skills necessary for their positions. The supervisors are also given supervisory training. Furthermore, training in career development and communication can be provided to managers, supervisors, and employees. According to Gerpott et al. (2017), personnel at lower levels who are slated for promotion can receive management and supervisor training. The implementation of training programs takes into account the necessary methods of skill and knowledge development. According to Huang and Jao, (2011), there are two primary training methods: behavioral and cognitive training. As a result, a company chooses the best method to implement in the training program. Elnaga and Imran, (2013), on the other hand, explain that the two methods can be used in the same program at the same time. The cognitive method entails giving employees or managers theoretical training. The trainees are given theoretical information through either verbal or nonverbal communication, or both. According to Quartey, (2012), firms that provide cognitive training focus on improving trainees' knowledge and skills while also influencing their attitudes through enhancing learning. Examples of cognitive approaches are lectures, program instruction, computer-

based training, discussions, and use of an intelligent tutorial system. The behavioral method, on the other hand, entails the use of practical approaches to provide training. These practical approaches aid in changing the trainees' behaviors. Thus, Khan & Baloch (2017), gave the explanation that the behavioral approaches are suitable for skill development. Examples of behavioral approaches are role-played in basket techniques, equipment stimulators, case studies, business games, behavioral modeling and games, and simulations. According to Khan and Baloch (2017), some approaches classified as cognitive methods, such as computer-based training, have a tendency to facilitate skill development in addition to knowledge acquisition. Similarly, some approaches classified as behavioral methods, such as case studies, provide both knowledge and skills. Huang and Jao (2016) identified two strategies for managerial and employee training: off-the-job training and on-the-job training. Off-the-job training entails providing training to employees or managers in a setting other than the one in which the skills and knowledge gained will be applied. The strategy requires the trainees to leave their work responsibilities and concentrate on training. On-the-job training, on the other hand, occurs in the workplace as the trainee performs work responsibilities. A more experienced employee or manager can serve as the instructor in this type of training. An organization can also hire a professional instructor to provide the training. Huang and Jao (2016) also stated that formal training outside of the workplace can be used to supplement on-the-job training. As a result, the two strategies can be used concurrently. Previous studies have found that in recent years, most organizations have shown a higher preference for off-the-job training Khan et al., (2011). Limitations associated with on-the-job training, such as a lack of opportunities for group discussion, insufficient training facilities, and the presence of a hostile internal training environment, have facilitated the change. Furthermore, training techniques differ depending on the training strategy used. Mentoring, coaching, demonstrations, job rotation, and team building exercises are examples of on-the-job training techniques Matsuo, (2014). Brainstorming, discussions, case studies, behavior modeling, conferences, and lectures are examples of off-the-job training techniques. However, some techniques, such as demonstrations, can be used in both work and non-work settings. Training programs should be designed with careful consideration of different factors that influence choices for training methods. By doing so, chances of achieving the desired goals increase tremendously. Human factors such as the presence or availability of a trainer can influence method selection. Other factors that influence learning include subject matter, training objectives, time and materials availability and learning principles (Khoury et al., 2014).

## **Research Methodology**

### *Research design*

The historical design was used to investigate on-the-job training and employee performance in Enugu Electricity Distribution Company, with a particular emphasis on Enugu State in the Eastern Region. The study's population is 100, which includes all categories of staff living within the study area. This study will be useful in determining whether on-the-job training improves employee performance in Enugu Electricity Distribution Company According to Sharp and Howard (2006), a population refers to the total collection of elements from which reference is made in a research process. The



population will be limited to staff of Enugu Electricity Distribution company in the South-east of Nigeria, with specific attention to the Main offices in the States. This will be chosen randomly and not for any specific purpose within the Enugu Electricity Distribution Company. The total population for the study will be 100. The Simple percentage table was used to display how the population of this study came about. Sampling is a process of selecting a number of persons, places, things or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group. (Orodho & Kombo, 2002). A sample is a part or a subset or a subgroup of a population. It is supposed to be a representative of the entire universe from which it was chosen. Okereka O.P. (2022). In carrying out this study, the sample size of 100 employees were used and they were selected randomly from all the departments and distributed proportionately.

The methods used in the collection of data are primary and secondary methods. In the primary data collection method, the questionnaire was adopted for the study of on-the-Job training on employee performance in Enugu Electricity Distribution Company. Also, secondary data collection was used as an additional source of data. This includes the use of literature, located textbooks, journals, newspapers etc. The method of data analysis was carried out using the Tabular presentations and percentage formula. The questionnaire is design to obtain information concerning on the job training and employee performance in Enugu Electricity Distribution Company of Nigeria.

The questionnaire is designed into two sections which include the demographical characteristics which contain personal information while the other section is designed on the issues of on-the-job training and employee performance in Organizations.

### Data Presentation and Discussion

A total of One hundred copies of questionnaires were distributed, out of which, eighty were fully completed and returned while twenty (20) copies were not returned.

**Table 1: Response Return Rate**

Department	Dispatched	Returned	% Respondents
Operations	20	15	18.75
Accounting	10	5	6.25
Customer Service	20	20	25
Metering	10	5	6.25
Procurement/Stores	20	20	25
ICT	20	15	18.75
Total	100	80	100

From Table 4.2 percentage return rate was 80

### *Demographic Characteristics of the Respondents*

This section discusses the demographic characteristics of the respondents based on gender, age and work experience of the respondents.

### *Age Distribution of the Respondents*

The age of the respondents was sought since its findings would assist the study categorize respondents based on age. The findings are shown in table below. this was helpful as it

helped to give the data age scheme and find out the effect of on-the-job training on employee performance in Enugu Electricity Distribution Company, Enugu Nigeria.

**Table 2: Age Distribution of the Response**

AGE	No of Respondents	% Respondents
20 – 29	10	12.5
30 – 39	40	50
40 – 49	20	25
50 – 59	10	12.5
Total	80	100

Source: Fieldwork 2023

The findings in table 2 shows that majority of the respondents age were between 30 – 39 years with 40(50%). This ratio is based on age composition which is fairly represented.

#### *Gender of the Respondents*

The Gender of the respondents was sought since its findings would assist the study categorize based on gender and the findings are shown below in table 4.3.

**Table 3: Gender Distribution of the Response**

SEX	No of Respondents	% Respondents
Male	50	62.5
Female	30	37.5
Total	80	100

Source: Fieldwork 2023

The findings in table 3 shows that majority of the respondents were male 50(62.5%) and the other 30 representing 37.5% were females. This portrays that there are more males than females in Enugu Electricity Distribution Company.

#### *Educational Qualification of the Respondents*

The Educational qualification of the respondents was sought since its findings would assist the study categorize based on their educational qualification and the findings are shown below in table 4.

**Table 4: Educational Qualification of the Respondents**

Educational Background	No of Respondents	% Respondents
WASC/GCE	5	6.25
OND	20	25
HND/B.Sc	35	43.75
M.Sc/Phd	20	25
None of the Above	0	0
Total	80	100

Source: Fieldwork 2023

From Table 4 the findings shows that majority of the respondents educational qualification were HND/B.Sc holders representing 35(43.75% ) The above evidence suggests that most

of the respondents are educated and literate enough to give accurate responses to the administered questionnaires.

*Work Experience of the Respondents*

The Work experience of the Respondent’s was sought since its findings would assist the study categorize based on their Work Experience qualification and the findings are shown below in table 4.

**Table 5: Work Experience of the Respondents**

Years of Experience	No of Respondents	% Respondents
1 - 10 Years	20	25
11 - 20 Years	50	62.5
21 - 30 Years	10	12.5
Total	80	100

Source: Fieldwork 2023

From Table 5 above, majority of the respondents had worked between 11-20 years 50 representing 62.5% of the respondents, this implies that most of the respondents has for many years in Enugu Electricity Distribution Company and were able to give reliable responses on the study on-the-job training and employee performance in the company.

**Table 6: Discrimination in identifying and selecting employees for training has a negative effect on organizational performance.**

Response	No of Respondents	% Respondents
Strongly Disagree	5	6.25
Disagree	10	12.5
Undecided	5	6.25
Agree	30	37.5
Strongly Agree	30	37.5
Total	80	100

Source: Fieldwork 2023

Table 6 shows that 30(37.5%) of the respondents strongly agree that discrimination in identifying and selecting employees for training has a negative effect on organizational performance. In the same vein, 30(37.5%) agreed that discrimination has a negative effect on performance. While 10(12.5%) disagree 5(6.25%) strongly disagree and the remaining 5(6.25%) were undecided.

**Table 7: Good training design ensures that identified employee skill gaps are properly captured.**

Responses	No of Respondents	% Respondents
Strongly Disagree	5	6.25
Disagree	5	6.25
Undecided	0	0
Agree	40	50
Strongly Agree	30	37.5
Total	80	100

Source: Fieldwork 2023

Table 7 depicts that 40(50%) of the total respondents agreed that training design ensures that identified employee skill gap is properly captured during the training design stage, while 30(37.5%) strongly agreed. However, a cumulative figure of 10 representing 12.5% of the respondents did not agree. This implies that there is a need to have a training design before the training proper.

**Table 8: Training delivery style ensures that the objective of employee training is achieved.**

Responses	No of Respondents	% Respondents
Strongly Disagree	5	6.5
Disagree	5	6.5
Undecided	2	2.5
Agree	30	37.5
Strongly Agree	38	47.5
Total	80	100

Source: Fieldwork 2023

Table 8 shows that 30 (37.5%) of the respondents are in the affirmation that training delivery style ensures that the objective of employee training is achieved. 38 (47.5%) strongly agreed that training delivery style ensures that the objective of employee training is achieved. Only a cumulative total of 10(12.5%) disagreed and 2(2.5%) of the respondents were undecided.

**Table 9: Employee perception of training is co-related to organizational performance.**

Response	No of Respondents	% Respondents
Strongly Disagree	5	6.25
Disagree	10	12.5
Undecided	5	6.25
Agree	11	13.75
Strongly Agree	49	61.25
Total	80	100

Source: Fieldwork 2023

Table 9 shows that 49 representing 61.25% of the respondents strongly agree that there is a relationship between employee perception of training and organizational performance. Similarly, 11 representing 13.75% of the respondents agreed that there is a relationship between employee perception of training and organizational performance 5(6.25%) were undecided and only 15 representing 18.75% did not agree.

**Table 10: On-the-job training affects employee performance.**

Response	No of Respondents	% Respondents
Strongly Disagree	0	0
Disagree	5	6.25
Undecided	5	6.25
Agree	30	37.5
Strongly Agree	40	50

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Total	80	100
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From Table 10 above, representing 40(50%) of the respondents strongly agreed that employee training affects organizational performance, 30 representing 37.5% agreed that employee training affects organizational performance, 5(6.25%) were undecided, while 5 representing 12.5% disagreed.

### Summary of Findings

The major findings of the study include the following:

1. The study sought to investigate the extent to which the selection procedure of employee training affected organization productivity, and the result showed that if staff are properly selected it will increase employee performance.
2. The study sought to determine the extent to which good training design/delivery style of training affects employee performance and the result showed that good training design and appropriate delivery style are likely to enhance employee performance.
3. Thirdly, the study sought to investigate the impact on-the-job training has on employee performance and the results showed that on-the-job training programmes are more likely to enhance employee capability than without.

### Conclusion and Recommendations

The study concludes that if the right employees are sent on training through the systematic training procedure of identifying and selecting employees for training, there would be significant improvement in the organizational performance. Therefore, for organizations to become more productive and remain in business, especially in this era of increased global competitiveness and growing complexity of the work environment, adequate training need assessment should be conducted by the Human Resource (HR) department before sending employees on training. In addition, Enugu Electricity Distribution Company should have a mechanism for evaluating employee post training performance. Emphasis should be on the skill gap and not on sentiment when selecting employees for training. The following recommendations were made in account of the study's findings and conclusion, and if adopted, it will make the training function of the Human Resource department of Enugu Electricity Distribution Company more productive and efficient.

The Human Resource department should conduct seminars and workshops on the importance of a systematic approach to training and the correct procedures to follow in identifying training needs in the different departments.

Departmental heads should be educated on the significance of sending the right employee for training. They should not view training opportunities as a way to reward their loyalists. The management should refrain from recommending personnel for training on the basis of favoritism.

The Human resource department needs to ensure that the training design used for employees is suitable and is rich in content. The content should be able to include all the identified skill gaps, and the training should be delivered by a trainer who has knowledge and experience in that field.

A mechanism should be created for proper assessment and evaluation of employee performance after training. The human resource department of the Enugu Electricity Distribution Company can utilize some of the employee performance indicators listed in this research work.

Employees should be motivated to partake in additional developmental programs that could improve their overall performance while also increasing organizational performance. The recommendations would impact positively on other organizations, especially those in the manufacturing and Service delivery sector such as Enugu Electricity Distribution Company.

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