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Volume 13

Confident in Africa's Future

# **African Business and Development in a Changing Global Political Economy: Issues, Challenges and Opportunities**

**International Academy of African Business and Development (IAABD)**

**Peer-Reviewed Proceedings of the**

**13rd Annual International Conference Held at:  
Mazagan Beach Resort  
2400 El Jadida,  
Casablanca, Morocco.**

**May 15 – 19, 2012**

**Edited by: Emmanuel E. Obuah  
Alabama A & M University, Normal, Alabama, USA.**

**Hosted By:  
El Jadida Polydisciplinary University  
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## Foreword

We have once again congregated in Morocco, one of Africa's gateways to Europe to exchange ideas on a very provocative theme for this conference "African Business and Development in a Changing Global Political Economy: Issues, Challenges and Opportunities". This week, May 15 – 19, 2012, we have gathered in the historic town of El Jadida, Morocco to examine and reexamine many of issues that continue to occupy the minds of African scholars, policy makers and governments. The theme of this conference is apt and germane particularly at this time when many African states are still struggling to tackle many basic problems exacerbated by lack of growth and development and the deepening process of globalization. Since the gaining of political independence by many Africa states, the twin issues of growth and development have been on top of their agenda. In order to address poverty and economic underdevelopment, African states have embraced different endogenous and exogenous models of development and from the trickle down import industrialization strategy of the early post-independence years to the structural adjustments prescription of the Washington Consensus. Accordingly, African states have adopted different paths to growth and development: socialist or capitalist paths. African states have also responded to the challenges of sustainable growth and technological development collectively through the creation of (sub) regional schemes and robust regional economic integration groupings. Although these schemes were intended to put African states in the paths to growth and technological development, the results have been abysmal and disappointing. While African States face major challenges, the continent still offers tremendous opportunities and hope to investors, businesses and its peoples.

Similarly, African scholars in development studies and other related disciplines have provided theoretical frameworks to growth and development: from the trickle down liberal model to the historicist model, or the managerial approach or the neo-Marxist/dependency approach. Our Academy has been in the forefront of scholarship in various aspects of African studies. In the past 10 years, the various IAABD's conference compendia have focused on different strategies of achieving economic growth and development.

At the global level, the need for Africa's sustainable growth and technological development has been addressed and articulated at various international forums, including the World Summit on Sustainable Development in Johannesburg on August 26 – September 4, 2002. The Johannesburg Summit articulated a plethora of actions to be taken to achieve sustainable development. And on a pan-African level, the creation of the African Union (AU), the New Partnership for African's Development (NEPAD) and the reconfiguration of Africa's economic relations, among others, are indicative of Africa's commitment to sustainable growth and development. It is hoped that the existence of AU, NPAD, and other continental and regional organizations in Africa, and the various global initiatives, such as the Millennium Development Goal, and the diversification of Africa's political, economic and social exchanges will sustain their zest toward sustainable growth and development.

There were dozens of papers presented in volume 13 of the IAABD peer reviewed Proceedings. In addition, there were also dozens of work in progress not included in this volume but were presented in various sections at the conference. The papers were meticulously selected by the track chairs to underscore the relevance and essence of the conference theme. These

papers and presentations touched on various aspects of Africa's growth and development. While some papers focused on specific issues in different countries in Africa, others dealt with issues that affect the continent as a whole. Yet, some papers and presentations examined the impact of specific global phenomena/issues or processes on Africa. Furthermore, the diversity of the papers in this volume also reflects the copious academic versatility and multidisciplinary background of the contributors. While the reviewers painstakingly did their work, the authors are responsible for the views and conclusions expressed in this volume.

It has been an honor and privilege to serve IAABD in various capacities, particularly as the Proceeding Editor. I owe great gratitude to several individuals who contributed in various ways to the success of this conference and to the publication of this volume. I am very grateful to all the authors who submitted their papers and whose papers are contained in this volume. I am particularly thankful to the track chairs for undergoing the painstaking and tedious review process of all the papers and sharing their thoughts with the various authors.

I am also wish to thank the host, El Jadida Polydisciplinary University, El Jadida, Morocco and the Local Organizing committee for their tireless efforts in making this conference a success.

Finally, I am especially thankful to Chris Enyinda, the President of IAABD for giving me the opportunity to serve. And to all the members of the current IAABD Executive Committee, I thank you for the opportunity to serve in my present capacity and for your unflinching support.



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## **International Academy of African Business and Development**

Founded in 1998, the International Academy of African Business and Development (IAABD) has established itself as one of the world leading organizations committed to fostering functional education, broadening and deepening global understanding of the various challenges facing African development and business, and advancing alternative solutions to Africa's business and economic challenges. IAABD is open to scholars, professionals, and students of any nationality who are interested or actively engaged in the teaching, research, performance or administration of business and economic development issues as they relate to Africa. Around 200 scholars and professionals from all over the world attend its annual conference.

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16	Tourism and Sustainable Development	Robert Rugimbana, Tshwane University of Technology, <a href="mailto:RugimbanaR@tut.ac.za">RugimbanaR@tut.ac.za</a>
17	Graduate Student Paper	William Wei, Grant MacEwan University, <a href="mailto:WeiX@macewan.ca">WeiX@macewan.ca</a>
18	Special Sessions and Practitioner Panels	Simon Sigué, Athabasca University, <a href="mailto:simons@athabascau.ca">simons@athabascau.ca</a>
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20	Islamic Banking and Business Relations	Atsede Woldie, University of Glamorgan, <a href="mailto:awoldie@glam.ac.uk">awoldie@glam.ac.uk</a>

## **Accounting, Finance and Investment**

## **The Impacts of Taxation on Investment Decisions: The Case of Morocco**

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*The purpose of this article is to study the relationship between investment decision and taxation. Although taxation is not the most important determinant of investment, it has a major impact on its competitiveness and its net profitability. The paper will begin by a brief review of the economic literature based on investment. Then, the paper will focus on the different tax measures deployed by the Moroccan authorities to offer investors a simple and attractive tax system. The survey allowed us to note that the Moroccan tax system is characterized by relatively high tax rates and simultaneously non-uniform and vary with market orientation, economic activity and location. Therefore, if Morocco wants to promote investment and growth, it must reform its tax system. This reform must involve the reduction of tax rates, the unification of the different tax treatment of investment, rationalization and targeting of tax incentives and why not the institution of a single tax system.*

### **INTRODUCTION**

Investment is the most important factor of prosperity for all countries and for their citizens, the fact that investment stimulates economic growth and job creation, foster innovation and sustainable development. Aware of this, almost countries, both developing and developed countries, have been competing among themselves to provide the advantageous environment to attract new investment and keep the current potential.

However, the investment decision depends on several factors, mainly the market size, infrastructure, stability and transparency of the political system, the qualification of the workforce. Another factor can influence the investment decision; especially tax system. Indeed, taxation may affect the investment decision through several ways. First, high tax rates discourage investment and capital formation. Secondly, high tax rates discourage the supply of labor and make labor more expensive. Finally, high taxation leads to relocation of investment to the country more competitive and attractive.

Thus, the factor of taxation can be exploited by governments to guide the activities and the choices of economic agents in order to achieve the goals of prosperity and development as sought by the government.

The purpose of this article is to study the impact of taxation on the investment decision, especially in Morocco. Thus, in a first point we will present the theoretical framework of the relationship between taxation and investment decisions while focusing on major theoretical research done in this sense (Part I). Next, we will present the main attraction factors of Moroccan tax system (Part II) and finally we will present (part III), on the one hand, the main country most competitors than Morocco in terms of tax attractiveness, on the other hand, the issues that present this competition on the competitiveness of the Moroccan economy.

### **LITERATURE REVIEW**

The investment is important in all strategic business decisions. Indeed, the company must invest not only to ensure the renewal of production equipment, but must ensure the development and expansion

of its business. The investment can be realized in various forms, namely, investment material, financial and immaterial investment especially research and development.

However, the investment decision is conditioned by the existence of capital stock, which is the result of a prior accumulation of income not consumed (for individuals) and not distributed as dividends for businesses. The allocation of this capital stock to investment decisions depends primarily on the rate of return required by investors, secondly by the expected return from realization of this investment and finally the cost of capital (implicit cost of capital in the terminology of MALINVAUD 1971) which will be supported by investors. The latter covers all factors that can influence the cost of capital, primarily the cost generated by taxation.

Understanding the relationship between taxation and the investment decision was the subject of several studies. According to the neoclassical theory of investment, the impact of taxation on capital expenditure is manifested through the user cost of capital. The authors of this school defines the cost of capital as the minimum rate of return required by the founders of the company (shareholders and creditors), in return for their investment. The tax burden is a factor that increases the cost of capital.

The pioneering works that are interested in studying the relationship between investment decisions and taxation are those of Jorgenson (1963) based on the cost of capital in the absence of tax, and those of Hall and Jorgenson (1967) taking account of tax rules. In their work they showed that the cost of capital includes the total cost of capital use during production process. The authors take into account the cost of financing, the economic depreciation, the capital gains or losses realized over and taxes for a given investment. This is a kind of rental price corresponding to a value for a firm linked to the holding of physical assets. Its calculation is based on the following assumptions: the firm seeks to maximize the wealth of its shareholders and invests until the marginal return on investment equals the marginal cost.

Other theories as important were interested on the investment decision, including that of Tobin's Q, initiated by J. Tobin (1969) that links investment to profitability through the Q ratio, which is a report between the market value of company and replacement value of fixed capital. Thus, a Q greater than 1 means that the company has an interest to invest more. For shareholders, a Q less than 1 leads them to a certain distrust of the company. However, this ratio had been the subject of much criticism because it does not take into account the influence of taxation. In order to improve the performance of this model, Cummins et al (1995) studied the effect of tax reforms on investment while providing an extension of the model of Tobin's Q adjusted by tax resulting from the deduction of depreciation expenses and tax incentives.

However, the most common methods used until now to study the impact of taxation on investment decisions are those that are based on the work of King and Fulletron (1984). Indeed, both authors have presented a method for measuring the impact of distortions caused by the difference between the tax regimes on investment, it is the method of tax wedges based on the following principles: tax effective rates reflect not only the statutory rate of corporation tax but also other variables that influence tax on the amount of tax and return on investment.

They proved that for an investment will be profitable, it is necessary that its pre-tax return would provide for the amortization, paying taxes and ensure to shareholders return net of tax, that they could obtain lending their funds at market interest rates. In more concrete, the difference between the pre-tax return on an investment (denoted p) and the net return earned by an investor who has financed this investment (denoted r), is called tax wedge. To take into account the complexity of tax system of a country to another and try to make an international comparison, in terms of influence of taxation on investment, King and Fulletron introduced the concept of marginal effective tax rate (METR), the latter is defined to be the tax wedge divided by the pre-tax rate of return. ( $METR = p - r/p$ ).

Mackie III (2002) specifies that the marginal effective tax rate is an incentive for investment based on future cash flows from future investments. It differs from the average effective rate calculated by the ratio of taxes paid and profit before tax being realized. As an incentive for marginal investment, the



marginal effective tax rate is better than average, since the latter is affected by the tax provisions that are not applicable to current investments. Mackie III (2002) specifies that a higher marginal effective tax causes a large drop in investment incentives.

Based on the foundations of the theory of King and Fullerton for comparison in different countries through the influence of taxation on the investment decision, an OECD study (1992) showed distortions in favor of or against certain forms of financing (internal, debt and capital increase), the effects of the tax system on the structure of investment by sector and activity and the effects of inflation.

This study differs from that of King and Fullerton by integrating personal taxation. In other words, the tax wedge depends on both the corporate tax regime and personal taxation. Indeed, the rate of income tax has an impact on the tax wedge depending on the mode of financing through debt or owner's equity, because of the deductibility of interest payments from taxable income. Thus, when tax rate is higher, then the deductibility of interest will be also higher; as well tax wedge corresponding to an investment financed by debt is low. Another parameter has a significant influence on the tax wedge, it is of depreciation allowances. Indeed, the deductibility of depreciation helps reduce the burden of investment, and thus the required rate of return through investment will be high.

However, the inflation rate affects the tax wedge through depreciation, in effect during periods of high inflation; tax depreciation may be less than economic depreciation resulting in financial losses for the company. Consequently, inflation increases the tax wedges and tax effective rates through its effects on depreciation.

With regard to personal taxation, several theoretical works, including those of Poterba and Summers (1985), Cummins et al (1995) and McKenzie (1996), were interested in examining the influence of the personal tax on investment while showing the impact of differential taxation of dividends and capital gains on investment. Indeed, in a system where tax personal income is high causing a high cost of capital, therefore the desired rate of return on an investment will be used.

In recent years, due to the increasing influence of differences in tax regimes on investment decisions, several studies have examined the impact of tax incentives on investment. This is particularly true of those, of Avouvi et al (1987), Fontaneau (1997), Cummins et al (1995) and that of S.Paquette et al (2005). These studies have shown that tax incentives have the effect of reducing the cost of capital; therefore, they can influence the profitability of investment. Recognizing the importance of the impact of the tax system on investment decisions, many countries have committed in recent decades in reforms to ease the burden of tax structures encumbering the investment decision. In the next section we will identify the main factors of attractiveness tax implementation by Morocco to enhance the investment climate.

#### **IDENTIFICATION OF KEY FACTORS OF ATTRACTIVENESS TAX IN MOROCCO**

In the current context of international tax competition, the Moroccan authorities have set a goal of promoting its attractiveness, particularly through improved tax competitiveness. This goal was realized, two decades ago, by the tax reform of 1984 which stipulates the establishment of four types of taxation, namely value added tax, the corporate tax, the income tax and the registration fee.

Many redevelopments since 1990, was introduced by the different finance laws to meet the objectives of simplification, harmonization and tax fairness. Indeed, in 2007, the tax authority has consolidated in the Tax Code all rules relating to the tax base, recovery and tax procedures. Currently the economic actors have a single document of all tax measures which will improve their readability tax.

The first tax incentives were introduced in the investment code of 1958, a series of investment codes were adopted later, notably those of 1960 and 1973, but they are an extension with a wider scope than that of 1958. In the early 1980 investment codes will be even more generous and more elaborate. However, authorities have found that these codes had some issues including the interpretation of texts and instability, difficulties related to the application and the granting of benefits.

To remedy to these deficiencies, an investment charter was adopted in 1995, it specifies that all investors, regardless of the sector in which they operate, have the same advantages and the same

guarantees. From 2007, all tax incentives for investors included in the tax code. Thus, Morocco imposes a number of direct, indirect taxes and the local taxes. The direct taxes include corporate income taxes, individual income taxes. The indirect taxes include VAT, stamp taxes, registration fees and customs duties. The local taxes include business tax and tax on municipal services (ex- urban property tax). Below, our attention will focus on specific measures to companies which create more investment.

### ***Corporate income tax***

Corporate tax is imposed on the net annual profits of joint stock companies, limited liability companies and partnerships limited by shares established according to Moroccan law. It is imposed on private and public sector companies alike and on public authorities engaged in taxable activities. Foreign banks and foreign companies operating in Morocco are subject to this tax with respect to the profits realized from their activities in Morocco.

Companies are taxed on the difference between their trading income and expenditure. Business expenses incurred in the operation of the business are generally deductible unless specifically excluded. Expenses not permitted include fines, penalties, interest on shareholder loans where the stock is not fully paid up, and interest on shareholder loans in excess of the official annual interest rate.

Morocco operates a territorial tax system. Companies (both resident and nonresident) are generally subject to corporate tax only on income generated from activities carried on in Morocco. Foreign corporations are subject to taxation on income arising in Morocco if they have, or are deemed to have, a permanent establishment in Morocco. A company is resident in Morocco if it is incorporated there or its place of effective management is in Morocco.

Like many other developing countries, investment incentives are permanent features of the Moroccan tax policy, where the preferred form of tax incentive is the tax holiday and reduced taxes, as presented in the following table:

**Table 1: type of tax exemptions from the year 2011**

<b>Type of tax exemptions</b>	<b>Number of cases</b>
1. Permanent exemptions	28
2. Exemptions followed by permanent reduced tax rate	4
3. Permanent exemptions for tax withholding	4
4. Permanent reduced tax rate	2
5. Exemptions followed by temporary reduced tax rate	2
6. Tax holidays	3
7. Temporary reduced tax rate	4
<b>Total</b>	<b>47</b>

Source : Tax code, 2011, éd. Legis Plus.

Otherwise, the standard rate for the corporate tax is 30%. For leasing companies and credit institutions the tax rate is 37%. Moreover, in addition to the ordinary rate, the tax code provides other tax rates that are expected to encourage investment; they are summarized in the table below:

**Table 2: Tax rates for corporation tax in force from the year ended 2011**

<b>Tax rate</b>	<b>Companies concerned</b>
30%	Standard tax rate.
37%	Leasing companies and credit institutions.
8%	May opt for this rate calculated on the total contract price net of VAT, foreign contractors carrying out engineering, construction or assembly

	projects relating to industrial or technical installations.
8,75%	Companies located in export free zones for 20 years following the fifth year of full exemption.
10%	1) - On option for offshore banks in the first 15 years following the date of obtaining approval. 2) - Income from shares, shares and similar income.
15%	Companies that make a turnover lower or equal to three million DHS
17,5%	Exporting companies, hotel enterprises, craft enterprises and business education.
20%	Withholding tax for products of fixed income investment.

Source : Tax code, 2011, éd. Legis Plus.

To attract more investment, tax law of 2011 introduced new measures, mainly for corporate and regional headquarters and international companies within the financial center of Casablanca, as well:

- Service companies that have a status of "Casablanca Finance City (CFC)" are fully exempt for the first 5 years and taxed at the reduced rate of 8.75% for the following 20 years. These same benefits are conferred upon such corporations under the net capital gains they realize from foreign sources.
- The regional and international office with the status of CFC is taxed at the reduced rate of 10%. The amount of tax due cannot be less than a minimum contribution equal to 5% of operating expenses.

#### ***Legal minimum tax***

The amount of corporation tax cannot be below a minimum assessment. Thus, companies are also subjected to a legal minimum tax of 1500 DHS or 0.5% of the annual turnover. The minimum tax is based on turnover, income from interest, subsidies, bonuses or donations received. To promote investment, the minimum tax is not payable by companies during their first 36 months of operation.

#### ***Value added tax***

The Value Added Tax (VAT) is a non-cumulative tax levied at each stage of the production and distribution cycle. Thus, suppliers of goods and services must add VAT to their net prices. The standard VAT rate is 20% and applies to all suppliers of goods and services, except those taxed at other rates or those who are exempt. Thus, a reduced rates of 14%, 10% and 7% are applies to specific items.

Two types of exemptions from VAT are provided. The first is an exemption with credit, equivalent to the zero tax concepts, which applies to exports, agricultural material and equipment and fishing equipment. The second is an exemption without credit, i.e., the seller receives no credit for input VAT paid. This exemption applies to basic foodstuffs, newspapers and international transport services.

To encourage investment, the legislature has provided a tax exemption on value added for investment equipment that will be counted among the assets within 24 months of start of activity.

#### ***Business tax***

A business tax or "patente" is levied on individuals and enterprises that habitually carry out business in Morocco. The tax consists of a tax on the rental value of business premises (rented or owned) and a fixed amount depending on the size and nature of the business. To encourage investment the law provides an exemption for the five first years of activity.

#### ***Registration fees***

Acts relating to investment are exempt from registration fees, these are the following acts:

- The asset contributions, and the acquisition of liabilities resulting from transformation of a public establishment to limited company;
- Acts of property acquisitions, incorporation and capital increase of companies located in free zones, banks and holding companies;
- The management of liabilities in the scission operations made between 01/01/2010 and 31/12/2012.

#### ***Customs duties***

All goods and services may be imported. Goods deemed to have a negative impact on national production, however, may require an import license. Most products imported are subject to import duties, the rates of which vary between 2.5% and 10% for equipment, materials, spare parts and accessories (these rates are reduced after the free trade agreements with the European Union). Some materials and products, however, are exempted, especially those imported under the investment charter, imported under customs economic systems and those using renewable energies. Value added tax is also payable on goods imported into Morocco.

The measures outlined above and which result in cuts in tax rates or increases in tax savings can have positive effects in reducing the cost of capital, which promotes investment decision. Apart from incentives through lower tax rates or through the absence of taxation (or tax holidays) for a specified period, the tax legislator admitted on the one hand, the principle of deductibility of depreciation which allows both to reduce the burden on investment and increase its cash flow and the other by the deductibility of financing costs related to financing investment.

## **IDENTIFICATION OF KEY COMPETITOR COUNTRIES**

Morocco is competing with several developing countries that have similar attractions. Indeed, competition is more evident as the economic development of these countries is more or less equivalent and therefore every government believes that it has the most attractive tax system than the neighbor's. It is this competition that threatens Morocco today and pushes to strengthen its tax attractiveness to be more competitive than its rivals.

Thus, when we want to account for the influence of taxation on economic activity and a comparison of tax systems from one country to another, it is important not to be limited to rate nominal taxation, but to consider the tax system as a whole. The ideal instrument used to account for the weight of taxes actually levied investment income, is the effective tax rate, it was developed by Devereux and Griffith (1999 and 2002). The two economists have shown that the effective tax rate was a significant variable in location decisions of multinationals. This rate can also be used to measure the expected effects of economic policies to support domestic business investment. For governments, the average effective rate provides a summary measure of the effectiveness of tax policies considered.

Thus, to get an idea of the attractiveness of the Moroccan tax system, based on the criterion of effective tax rate, we chose countries that represent more or less the same economic development. These are:

- Countries of Central and Eastern Europe (CEE),
- Arab and Mediterranean economies,
- Countries of Southeast Asia and China.

Indeed, according to the study "Global Effective Tax Rates", conducted by the U.S. firm PricewaterhouseCoopers (PwC) in 2011, Morocco is the second country worldwide in terms of effective average tax rate is higher. The study covers the period 2006-2009, indicates that the effective tax rate applied to Morocco averaged 33.9% during this period to include Italy (29.1%), Indonesia (28.1%) and Germany (27.9%). Only Japan has a higher rate than that of Morocco with 38.8%.

The study aimed to compare the effective tax rate suffered by U.S. firms in comparison with 58 world economies. The rate charged by Morocco greatly exceeds the average of OECD countries (22.6%), and non-OECD countries in this study (21.9%).

In addition, the rate charged in Morocco exceeds that practiced in South Korea (24.3%), Malaysia (22.8%), China (21.5%), Egypt (21.4%), Jordan (19.9%), and Turkey (18.6%), even from Saudi Arabia (4.4%), Bahrain (3.4%), and Kuwait (3.1%). This rate is also higher than that charged by the two European economic partners of Morocco: France (23.1%) and Spain (21.8%). Note that the effective tax rate in Morocco was 36.8% in 2006, rising to 31.6% in 2007 and to 34.7% in 2008 and 33.2% in 2009.

Another study in this direction was published early 2011 by the World Bank "Paying Taxes 2011," this time, Morocco is positioned in 99th place out of 183 countries in terms of burden of taxes from businesses. A mid-table position which differs from the second position attributed by the study of PricewaterhouseCoopers (PWC). The difference between the two studies lies mainly in the methodology adopted by both classifications.

Thus, the study by the World Bank based on the overall tax rate, i.e the sum of the tax rate levied under the income tax and corporate and other taxes. However, PWC is based on the effective tax rate (equivalent to the total tax on corporate income divided by profit before tax). In simpler terms, the U.S. firm considers what is actually collected from the company under the tax.

According to the results of such studies, we can see that Morocco has an expensive and unattractive tax system in comparison with competitor countries, mainly the neighboring Mediterranean countries. The consequence of this situation is obvious, a high cost of capital, then a low investment attractiveness.

## CONCLUSION

This paper is proposed to study the influence of taxation on the investment decision. It was found that there is a substantial impact of taxation on investment, especially its competitiveness and its net profitability through its affects on the cost of capital and on the expected net profitability from a given investment. Aware of this challenge, Morocco has engaged on since the 80 reforms to the simplification and harmonization of procedures. However, experience has shown that the Moroccan tax system does not respect the standards of a modern tax system, namely, simplicity, fairness and efficiency. The consequence of this situation is obvious; Morocco presents unattractive tax system.

Therefore, if Morocco wants to promote investment and growth, it must reform its tax system. This reform must involve the reduction of tax rates, the unification of the different tax treatment of investment, rationalization and targeting of tax incentives and why not the institution of a single tax system. Several improvements could be made to this work. One of them is to demonstrate the feasibility of a radical reform of the current tax system by a tax system based on a single tax rate on personal and/or corporate income and/or VAT (Flat tax) with the removal of all tax exemptions and exceptions except personal allowance.

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## Forecasting Exchange Rates using Combination Techniques: an Empirical Investigation of BRICS Economies

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*The purpose of this research is to investigate the application of combination forecasting to predict the exchange rates of BRICS (Brazil, Russia, India, China and South Africa) countries. Generally speaking, exchange rate forecasting methods in use today by both commercial services and corporate forecasting departments are primarily technical, econometric, or judgmental methods. This study permits an assessment of the utility of the combination approach. Data are drawn from International Financial Statistics, monthly publications by the International Monetary Fund. All exchange rates are recorded in their respective local currency units to one U.S. dollar. The Ng and Perron unit root test is conducted for stationarity purpose. Four individual models such as volatility, exponential smoothing, naïve 1 and cointegration via ARDL (autoregressive distributive lags) models are used for combination purposes. The MAPE (mean absolute percentage error) is used to assess the forecasting accuracy of all models. Although statistically based forecast combination methods have not had much application in the field of exchange rate modelling, the results of this study show that combination models perform better than the single model prediction.*

### INTRODUCTION

Forecasting exchange rates is an important financial problem that has received much attention especially because of its intrinsic difficulty and practical applications. It has become increasingly important since the dissolution of the Bretton-woods system, the advent of floating exchange rates in 1973 and the recent American financial crisis. Therefore, to manage the foreign exchange risk, forecasting exchange rates and its volatility become priority of the managerial functions in today's competitive markets. To date, many researchers and business practitioners have developed a variety of forecasting methods to predict the exchange rates. Two different approaches such as *technical* and *fundamental* analyses are used to forecast the exchange rate in practice. It has been observed that in the short-run using fundamentals should be more difficult than to forecast exchange rates in the medium and long-run. Due to incomplete information in the short-run, the foreign exchange market participants are to large extent based on technical analysis (Taylor & Allen, 1992). On the other hand, the long-run behaviour of exchange rates is much more governed by fundamentals (Amor et al. 2008; Carrera & Vuletin, 2003). Generally speaking, exchange rate forecasting methods in use today by both commercial services and corporate forecasting departments are primarily technical, econometric or judgmental methods. This study permits an assessment of the utility of the combination approach.

The remainder of the paper is structured as follows. Section 2 provides the brief discussion of literature. Section 3 presents the research question. Methodology and data descriptions are presented in section 4. Results, analysis and interpretations are reported at section 5. Section 6 contains the conclusions and policy implications.

### LITERATURE REVIEW

The literature on exchange rates determination has produced mixed evidence on the out-of-sample predictive power of various models. In theory, numerous models such as flexible price monetary model, the sticky price monetary model, equilibrium models, liquidity models and portfolio balance models are proposed as a standard macroeconomic model for exchange rate determination. These empirical models may be useful for long run forecasting, it is still very difficult to beat a random walk forecasting model in short run (Sarno & Taylor, 2002). Different time series and econometric models have been proposed by many researchers over the last two decades. Nevertheless the pioneering study of Meese and Rogoff (1983) shows that the superiority of the random-walk model in out-of-sample exchange-rate forecasts. There is some evidence that exchange rate movements may be predictable for

a longer time horizons. Several models are widely used by academics and practitioners to forecast exchange rate and its volatility. Nowadays there is no consensus about which method is superior in terms of forecasting accuracy (Poon & Granger, 2003; Taylor, 2005; Andersen et al., 2006). Some authors concluded that time series volatility forecasting models are superior because they are specially designed to capture the persistence of volatility, a salient feature of financial volatility (Engle, 1982; Bollerslev, 1986). Other studies (i.e. Shahriari, 2011; Altavilla & Grauwe, 2010; Benavides & Capistran, 2009; Li et al., 2005) argue that the combination of the models can yield better results because combination forecasting permits the researcher to unite the advantages of econometric class of models with time series class of models. Moreover, by implementing combination techniques researcher can minimise the weakness of forecast made by individual models.

## RESERACH QUESTION

The aim of this paper is an attempt to contribute to the ongoing debate regarding the possibility of correctly forecast the exchange rate movement using combination techniques. The following research question is use to investigate this debatable issue- *Is combination model superior for predicting BRICS's exchange rates against U.S. dollar?* The context of this paper is combination forecasts of exchange rates of BRICS countries. Although exchange rate is seen by many researchers as an important indicator of the economic welfare, yet most of the studies on forecasting exchange rate are focused mainly on advanced countries (Molana & Osei-Assibey, 2010). However, studies with BRICS countries are almost non-existent. This study fills a gap in the literature by considering the BRICS countries. Four single models are used to forecast the exchange rates: univariate volatility models, exponential smoothing models, cointegration via ARDL (autoregressive distributive lags) models and naïve 1 model. Two combination approaches- the equal weights and variance-covariance methods are applied in this study.

## METHODOLOGY AND DATA

### Time series models

#### Univariate volatility models

The theory of volatility modelling was presented by Engle (1982) who introduced the ARCH (autoregressive conditional heteroscedasticity) model. This concept is extensively used in the finance literature after many modifications made of the basic model such as GARCH (Bollerslev, 1986), EGARCH (Nelson, 1991), APARCH (Ding, Granger & Engle, 1993), TARARCH (Zakoian, 1994) and many others. The general GARCH (generalised autoregressive conditional heteroscedasticity) model is given as:

$$\sigma_t^2 = \alpha_0 + \sum_{i=1}^q \alpha_i \varepsilon_{t-i}^2 + \sum_{j=1}^p \beta_j \sigma_{t-j}^2 \quad (1)$$

where  $\alpha_0 > 0$  and  $\alpha_i$  and  $\beta_j \geq 0$  to eliminate the possibility of a negative variance. However, it has been argued that in practice, this constraint may over-restrictive (Nelson & Cao, 1992; Tsai & Chan, 2008). It is rare for the order (p,q) of a GARCH model to be high; indeed the literature suggests that the parsimonious GARCH(1,1) is often adequate for capturing volatility in financial data (see, for example, Chen & Lian, 2005).

The threshold model is a simple extension of the GARCH scheme with extra term(s) to add to account for possible asymmetries. TGARCH extends the GARCH (p,q) model of equation (1) via :



$$\sigma_t^2 = \alpha_0 + \sum_{i=1}^q (\alpha_i s_{t-i}^2 + \gamma_i s_{t-i}^2 I_{t-i}) + \sum_{j=1}^p \beta_j \sigma_{t-j}^2 \quad (2)$$

where  $I_{t-i}$  are dummy variables equal to unity if  $s_{t-i} < 0$  i.e. a *negative shock or bad news* and equal to zero if  $s_{t-i} > 0$  i.e. a *positive shock or good news*. If  $\gamma_i > 0$  in equation (2), then a negative shock increases the volatility. Again, the values of  $p$  and  $q$  tend to be low in empirical applications.

The EGARCH (p,q) model of Nelson (1991) can also accommodate asymmetry and specifies the conditional variance in a different way:

$$\log_e \sigma_t^2 = \alpha_0 + \sum_{i=1}^q (\alpha_i \left| \frac{s_{t-i}}{\sigma_{t-i}} \right| + \gamma_i \frac{s_{t-i}}{\sigma_{t-i}}) + \sum_{j=1}^p \beta_j \log_e \sigma_{t-j}^2 \quad (3)$$

One reason that EGARCH has been popular in financial applications is that the conditional variance,  $\sigma_t^2$ , is an exponential function, thereby removing the need for constraints in the parameters to ensure a positive conditional variance (Longmore & Robinson, 2004). The model also permits asymmetries via the  $\gamma_i$  term in equation (3) and if  $\gamma_i < 0$ , negative shocks lead to an increase in volatility. If  $\gamma_i = 0$ , the model is symmetric. The values of  $p$  and  $q$  are very rarely high and EGARCH models tend to be parsimonious.

The power GARCH (PGARCH) model (Ding, Granger & Engle 1993) is another asymmetric model that examines powers of the conditional standard deviation but rather than forcing that power to have a value of two as per the GARCH model. The asymmetric PARCH (1,1) scheme is defined as:

$$\sigma_t^\delta = \alpha_0 + \alpha_1 (|s_{t-1}| - \gamma_1 s_{t-1})^\delta + \beta_1 \sigma_{t-1}^\delta \quad (4)$$

where  $\delta > 0$  and  $|\gamma_1| \leq 1$ . If  $\delta = 2$  and  $\gamma_1 = 0$ , the PARCH model of equation (4) reduces to a symmetric GARCH(1,1). Again, if  $\gamma_1 = 0$ , the model is symmetric. Although PGARCH model applied in the time series with marked skewness and kurtosis, very little application has been found in exchange rate literature. The detailed descriptions of volatility models are available in Brooks (2008).

### Exponential smoothing models

Various exponential smoothing models (Gardner 1985, 2006) are amongst the most widely used time series models in the fields of economics, finance and business analysis. The simple, one parameter exponential smoothing model is applicable to series with no trend and seasonality and is defined as:

$$\hat{Y}_{t+1} = \alpha Y_t + (1 - \alpha) \hat{Y}_t \quad (5)$$

where  $\hat{Y}_{t+1}$  is the forecasted value of the series at time  $(t + 1)$ ,  $Y_t$  is the observed value of that series at time  $t$  and  $\alpha$  is the smoothing (or ‘weighting’) parameter to be estimated with  $0 \leq \alpha \leq 1$ . The optimal value of  $\alpha$  is defined as that which minimises the sum of the squares of the errors (SSE) and is found by means of a grid search of the form  $\alpha = 0(0.1)1$  or  $\alpha = 0(0.01)1$ . High values of  $\alpha$  in equation (2) imply that the impact of historical observations dies out quickly and vice versa. Potentially more relevance to exchange rate forecasting are exponentially smoothing models that extend the simple model by incorporating a parameter  $(\gamma)$  reflecting any trend present and/or a parameter  $(\delta)$  for any seasonality.

### The Naïve 1 model

The Naïve 1 or no change model assumes that a forecast of a series at a particular period equals the actual value at the last period available i.e.  $\hat{Y}_{t+1} = Y_t$  which is the simple exponential smoothing model with  $\alpha = 1$ . The Naïve 1 model is often included in forecasting studies since it acts as yardstick with which other models may be compared (McKenzie & Mitchell, 2002).

### 4.2) Cointegration via ARDL model

In finance literature, three cointegration methods are reported: the Engle-Granger 2-step method (1987), the Engle-Yoo 3-step (1987) and the Johansen (1988) method. All three methods require pre-testing of the study variables in order to assess the level of integration. Such pre-testing is usually done by the Augmented Dickey-Fuller (ADF) test or the Phillips-Perron (PP) test. It is well-known that both the ADF and PP tests are not particularly robust. Therefore, this study intends to apply a fourth method—the autoregressive distributive lag (ARDL) approach to cointegration, which requires no such pre-testing (Johnston & DiNardo, 1997). Pesaran & Shin (1995, 1999) pioneered this technique. It is rarely applied to the analysis of exchange rate series, so this study permits an assessment of the utility of the ARDL approach. A simple ARDL(1,1) model is defined as:

$$Y_t = \mu + \phi Y_{t-1} + \varphi_0 X_{t-1} + \varepsilon_t \quad (6)$$

where  $Y_t$  and  $X_t$  are stationary variables and  $\varepsilon_t$  is a white noise error process. A white-noise error process requires a mean of zero, a constant variance and absence of autocorrelation. The ARDL model can be reparametrized to yield an error correction model (ECM). The particular error correction form for this ARDL model is

$$\Delta Y_t = \pi + \sum_{i=1}^{q-1} \beta_i \Delta Y_{t-i} + \sum_{i=1}^{q-1} \gamma_i \Delta X_{1,t-i} + \sum_{i=1}^{q-1} \xi_i \Delta X_{2,t-i} + \dots + \sum_{i=1}^{q-1} \theta_i \Delta X_{k,t-i} + [\delta_1 Y_{t-1} + \delta_2 X_{1,t-1} + \delta_3 X_{2,t-1} + \dots + \delta_k X_{k,t-1}] + \varepsilon_t \quad (7)$$

where the term in square brackets is the error correction term and  $\pi$  is an intercept. The first part of the equation (7) with  $\beta_i, \gamma_i, \xi_i$  and  $\theta_i$  represents the short-run dynamics of the model whereas the parameters  $\delta_1, \delta_2, \delta_3$  and  $\delta_k$  represents the long-run relationship.

### Combination Methods

Combining forecasts is an appealing approach. Instead of choosing the single best method, it is sensible to asking which methods would help to improve forecast accuracy, assuming that each has something to contribute. Two combination approaches, the equal weights and variance-covariance methods are applied in this study. Consider the two individual forecasts of  $Y$ , denoted by  $\hat{Y}_1$  and  $\hat{Y}_2$ . The latter are to be combined to estimate  $Y$  via:

$$\hat{Y}_{COMBINED}(t) = k\hat{Y}_{MODEL 1(t)} + (1 - k)\hat{Y}_{MODEL 2(t)} \quad (8)$$

where,  $t$  represent time,  $k$  and  $(1 - k)$  are weight attached to  $\hat{Y}_{1,t}$  and  $\hat{Y}_{2,t}$  respectively and  $0 < k < 1$ . A simple method of combining two forecasts is to take their arithmetic mean i.e. set  $k = \frac{1}{2}$  in equation (8). This is called the *equal weight* method of forecast combination. This simple but often effective method of forecast combination is one of the two such methods applied in this study, since there is evidence that equal weights can be accurate for many types of forecasting (Armstrong, 2001). However, in *variance-covariance* method the  $k$  of  $\hat{Y}_{1,t}$  in equation(8) is calculated by:

$$k = \frac{VAR \epsilon_{MODEL 2,t} - COV(\epsilon_{MODEL 1,t}, \epsilon_{MODEL 2,t})}{VAR \epsilon_{MODEL 1,t} + VAR \epsilon_{MODEL 2,t} - 2 COV(\epsilon_{MODEL 1,t}, \epsilon_{MODEL 2,t})} \quad (9)$$

where  $k^*$  is the weight of  $\hat{Y}_{1,t}$  in equation (9) that minimises the variance of the errors of the combined forecasts. By definition  $k_2 = (1 - k)$ . There are suggestions that the weighting procedure of equation (9) is over-complicated. Following the proposal of Bates and Granger (1969), Li (2007) ignored the covariance terms in equation (9) in a study of quarterly UK outbound tourism to the United States and further suggested that since  $VAR \epsilon_{MODEL 1(t)}$  and  $VAR \epsilon_{MODEL 2(t)}$  are unknown, they should be replaced with  $\sum_{t=1}^T \epsilon^2_{MODEL 1(t)}$  and  $\sum_{t=1}^T \epsilon^2_{MODEL 2(t)}$  respectively, to derive the weight:

$$k^* = \frac{\sum_{t=1}^T \epsilon^2_{MODEL 2(t)}}{\sum_{t=1}^T \epsilon^2_{MODEL 2(t)} + \sum_{t=1}^T \epsilon^2_{MODEL 1(t)}} \quad (10)$$

This variance-covariance approach may be readily extended to combining more than two forecasts. For example, when combining three forecasting models, it may be established that:

$$k_1 = \frac{\sum_{t=1}^T \epsilon^2_{MODEL 2(t)} \sum_{t=1}^T \epsilon^2_{MODEL 3(t)}}{\sum_{t=1}^T \epsilon^2_{MODEL 1(t)} \sum_{t=1}^T \epsilon^2_{MODEL 2(t)} + \sum_{t=1}^T \epsilon^2_{MODEL 1(t)} \sum_{t=1}^T \epsilon^2_{MODEL 3(t)} + \sum_{t=1}^T \epsilon^2_{MODEL 2(t)} \sum_{t=1}^T \epsilon^2_{MODEL 3(t)}}$$

The denominator of the above equation remains the same for the other weights,  $k_2$  and  $k_3$  the numerator for these latter weights parallels the above. Four-way model combinations involve three-way products of the sum of squared error terms.

Data are drawn from International Financial Statistics (IFS), monthly publication by the International Monetary Fund (IMF). Monthly data from 1972M1 up to and including 2007 M12 are used for model derivation. The remaining observations i.e. 2008M1 to 2010M4 in the sample for all countries will be held back for the purpose of out-of-sample forecast evaluation. The variables used in this study are national currency against U.S. dollar, money supply, interest rate, inflation rate, real income, trade balance, trade openness, current account balance, reserve, government expenditure, oil price, gold price and commodity price.

## RESULTS, ANALYSIS AND INTERPRETATIONS

### Model Identification and Initial Findings

The first stage in the volatility modelling process is to establish mean equations. In this study, the ARIMA model has been used to obtain the mean equations. The method of applying ARIMA models to exchange rate data has been well-described in the literature (Huseyin & Trafails, 2006). The data series should be trend stationarity before applying the ARIMA model. The Ng-Perron (2001) unit root test is conducted for trend stationarity purpose. ARIMA models are fitted up to and including 2007M12 for all exchange rates series. The results of applying the ARIMA model are extensive and

significant parameter estimates are, therefore, available on request. The mean equations act as a basis for generating the conditional variance equations for each series. The finance literature emphasises the parsimonious nature of the GARCH, EGARCH and PARCH models. To obtain an optimal model all combinations of ARCH (p) = (0,1,2) with GARCH (q) = (0,1,2) were conducted except for p=q=0. This method is referred by Angelidis et al. (2004) in Finance. The threshold order determines the impact or otherwise of news shocks. All combinations of symmetric and asymmetric volatility models are run. In most instances more than one of the ARCH, GARCH, EGARCH and/or PARCH models with significant parameters are found. The model with maximum *Log Likelihood criterion (LL)* is selected as *optimal model* for each series. It should be noted that EViews includes a constant in the variance equation by default. The parameters estimates are obtained in the EViews 7 software package via the Berndt, Hall, Hall, and Hausman (1974) algorithm if the Marquardt algorithm failed to converge. The *Ljung-Box* Q-statistic tests for remaining serial autocorrelation in the residual for up to twelve monthly lags have been conducted for reaching the optimal volatility model. The Q(12) statistics test helped to find out the correct mean equation whereas,  $Q_{SQ}(12)$  is required in order to avoid the model misspecification.

The conditional variance equations associated with the mean equations for all series are present in Table 1 along with estimated values of parameters, LL, Q(12) and  $Q_{SQ}(12)$ . EGARCH volatility models are obtained for all series except Brazil. The PARCH (2,1) is found statistically significant for Brazil. The coefficients of the mean equation are all significant (p < 0.05). It does not matter whether the constant term ( $\alpha_0$ ) is not significantly different from zero. The Ljung-Box Q(12) for all countries are non-significant (p > 0.05) indicating that the mean equations are correctly specified. Moreover the  $Q_{SQ}(12)$  statistics are also non-significant for all countries indicating that model is correctly specified.

Symmetric volatility models are found for Brazil, Russia, India and China. This implies that the positive and negative macroeconomic or political news announcements are same on their exchange rates with U.S. dollar. However the impacts are asymmetric for the case of South Africa. This may lead to conclude that negative news concerning with macroeconomic fundamentals or political have significant greater impacts on the exchange rates of South African rand/U.S. dollar. Results also revealed the fact that there are longer term ( $\beta_i > \alpha_i$ ) impacts of shocks on exchange rates are found in the cases of Brazil and Russia. However, the short term ( $\alpha_i > \beta_i$ ) impacts are found in the case of China, India and South Africa.

Table 1: Conditional variance equations

Country	$\alpha_0$	$\alpha_1$	$\alpha_2$	$\beta_1$	$\beta_2$	$\delta$	$\gamma_1$
<b>Brazil</b>							
PARCH (2,1)	0.002	0.462	-0.519	1.038		0.607	
‡Statistics	0.767	2.872	-3.424	41.744		1.808	
Significance	0.443	0.004	0.000	0.000		0.000	
	<b>LL= 204.827</b>	<b>SBC= -2.656</b>	<b>Q(12)=15.488(0.161)</b>	<b>Q<sub>so</sub>(12)=4.024(0.969)</b>			
<b>China</b>							
EGARCH (1,0)	-7.443	0.194					
‡Statistics	-10.951	2.967					
Significance	0.000	0.003					
	<b>LL= 958.730</b>	<b>SBC= -4.501</b>	<b>Q(12)=4.172 (0.965)</b>	<b>Q<sub>so</sub>(12)=0.089 (1.000)</b>			
<b>India</b>							
EGARCH (0,1)	0.001			0.996			
‡Statistics	0.453			433.305			
Significance	0.651			0.000			
	<b>LL= -180.597</b>	<b>SBC= 0.882</b>	<b>Q(12)=3.675(0.978)</b>	<b>Q<sub>so</sub>(12)=1.233 (1.000)</b>			
<b>Russia</b>							
EGARCH (2,2)	0.033	1.270	-1.334	1.775	-0.781		
‡Statistics	0.228	2.523	-1.968	12.483	-5.556		
Significance	0.819	0.011	0.049	0.000	0.000		
	<b>LL= 19.456</b>	<b>SBC= -0.031</b>	<b>Q(12)=14.940 (0.134)</b>	<b>Q<sub>so</sub>(12)=2.315 (0.993)</b>			
<b>South Africa</b>							
EGARCH (1,1)	-0.291	0.272		0.198			0.984
‡Statistics	-3.664	3.142		2.482			132.9
Significance	0.000	0.002		0.013			0.000

Significance LL= 336.089 SBC= -1.836 Q(12)=10.550 (0.394) Q<sub>sq</sub>(12)=6.712 (0.752)

The significance levels associated with Q(12) and Q<sub>sq</sub>(12) are shown in brackets.

The exponential smoothing models obtained for each country are reports in Table-2. In SPSS version 19, the *Expert Modeller* procedure generates optimal (minimum SSE) exponential smoothing models and generates forecasts. The values of the parameters  $\alpha$ ,  $\gamma$ ,  $\delta$  and the *Normalised Bayesian Information Criteria (NBIC)* are also reported in Table 2. The high value of  $\alpha$  implies that the impact of historical observations dies out quickly and most recent observation has significant impact on forecasting exchange rates whereas, large values for  $\gamma$  and  $\delta$  give more weight to recent estimates

Table 2: Exponential smoothing model

Country	Model	$\alpha$	$\gamma$	$\delta$	NBIC
Brazil	Damped Trend	1.000	0.999	0.299	-4.577
China	Simple	1.000	-----	-----	-3.771
India	Damped Trend	1.000	0.294	0.627	-1.503
Russia	Damped Trend	0.999	0.273	0.860	-0.512
South Africa	Damped Trend	1.000	1.000	0.301	-3.285

of the trend and seasonal component respectively, with small values giving more weight to historical estimates of this component. The NBIC is a general measure of the overall fit of a model that attempts to account for model complexity. The damped trend model is found for all series except China. Over the past twenty years, damped trend exponential smoothing has performed well in numerous empirical studies and it is now well established as an accurate forecasting method (McKenzie & Gardner, 2010). The simple or naïve one model is found optimal is the case of China.

The long-run coefficients and error correction model of ARDL approach for each series are reported in Table-3. The variables used in this study are money supply (MS), short run interest rate (INRS), long run interest rates (INRL), inflation rate (INFR), real income (GDP), trade balance (TB), trade openness (TO), current account balance (CA), reserve (RES), government expenditure (GE), oil price (COIL), gold price (GP) and commodity price. The Schwartz Bayesian criterion (SBC) is selected to determine the *optimal model* for each series. The SBC balance the goodness of fit of the model against the number of unknown parameters that have to be estimated (parsimony). As a rule, the SBC leans towards parsimony (the least number of estimated parameters). The diagnostic test for serial autocorrelation (SC), the test of homoscedasticity (HM) and in both cases F statistics are reported for significance. Furthermore, the test (F) of overall significance of the original underlying ARDL model for each series is also reported in Table-3. These estimated results are obtained by the Microfit 4 software package.

Table 3: Estimated long run coefficients using ARDL approach

Country	Error Correction Model	Diagnostic Test
Brazil	$\ln ER = 3.801 * TOBZ$ (5.790) [0.000] $ecm = -0.023 (-1.806) [0.043]$	SC:F = 0.591 [0.846] HM:F = 1.821 [0.179] F = 17.740 [0.000] <b>SBC = 255.087</b>
China	$ER = -7.9621 - 0.002 * NEXCHI + 0.002 * GDPUS + 0.066 * GP + 16.256 CBP$ (-4.783) (-1.793) (9.408) (4.782) (4.893) [0.000] [0.047][0.000][0.000][0.000] $ecm = -0.018 (-4.932) [0.000]$	SC:F = 5.830 [1.000] HM:F = 3.885 [0.051] F = 498.296 [0.000] <b>SBC = 506.834</b>
India	$\ln ER = -12.684 + 0.111 * IRLN + 0.014 * 10^{-3} * GDPUS - 0.022 * COIL + 0.011 * GP - 13.028 * CNY - 13.307 * SOMB$ (-1.969) (2.015) (5.448) [0.000] (-2.559) (2.160) (2.535) (2.571) [0.000] [0.044] [0.000] [0.011] [0.031] [0.012] [0.010] $ecm = -0.013 (-2.593) [0.010]$	SC = 2.770 [0.990] HM:F = 2.279 [0.132] F = 61.429 [0.000] <b>SBC = 1248.4</b>
Russia	$\ln ER = -0.152 * IASR + 0.905 * IRLUS$ (-4.174) (9.507) [0.000] [0.000] $ecm = -0.012 (-2.863) [0.005]$	SC:F = 5.972 [0.065] HM:F = 14.614 [0.075] F = 49.728 [0.000] <b>SBC = 250.330</b>
South	$\ln ER = -0.089 * IRLSA + 6.191 * TOSA - 0.341 * IASUS$	SC:F = 1.905 [0.055]

Africa	(-6.178) [0.037]	(3.359) [0.001]	(-3.666) [0.000]	HM:F = 0.653 [0.419] F = 23.632 [0.000] <b>SBC = 687.564</b>
<b>ecm = - 0.009 (-1.830) [0.006]</b>				

All Exchange rates (ER) are log transformed except China. T statistics are reported in the round brackets and corresponding significance levels are reported in the square brackets. SC is the test for Serial Correlation; HM is the test of homoscedasticity and F testing the overall significance of the underlying ARDL model.

Result shows that the *semilog* models are statistically significant for all country except China. The results are different as economy change. The trade openness of Brazil has a significant long term impacts on exchange rates of Brazilian real/U.S dollar. In case of China, the net export of China, GDP of USA, gold price have significant long term impact of Chinese Yuan/U.S dollar. In contrast, long term interest rate of India, GDP of USA, gold price and oil price are found significant long term relationship with Indian rupee/U.S dollar. However short term interest rate or Russia and long term interest rate of USA are the main determinants of Russian rubble/U.S dollar. Finally, Long term interest rate of South Africa, trade openness of South Africa and short term interest rate of USA are found statistically significant in the case of South African rand/U.S dollar. The dummy variables such as Central bank policy (CBP), Cyclone (CYC) and bombing (BOMB) are also found statistically significant in the case of China and India respectively. The error correction model fulfils the condition of no serial autocorrelation (SC) and homoscedasticity (HM) of the residuals. The coefficient of error correction term (ecm), that is, the speed of the adjustment is found to be negative and statistically significant. Thus the condition for a long-run stable equilibrium is satisfied. The coefficient of error correction term for Brazil, Russia, Indian, China and South Africa are 0.023, 0.018, 0.013, 0.012 and 0.009 respectively, indicates a slow speed of convergence to equilibrium. This implies that derivation from the long-term equilibrium is corrected by 2.3%, 1.8%, 1.3%, 1.2% and 0.9% over each year in the case of Brazil, Russia, Indian, China and South Africa respectively.

### COMBINATION FORECASTS

Forecasts from 2008M1 to 2010M4 obtained from the volatility, exponential smoothing and cointegration models were combined via equal and variance-covariance methods. It is worthwhile to mention here, due to constant forecast feature, the naïve 1 or no change model is deleted from the combination part. All models are assessed in terms of forecasting accuracy. Studies of exchange rate volatility have used a variety of measures to assess forecasting accuracy (Dunis & Williams, 2002). However, the *mean absolute percentage error (MAPE)* is amongst the most commonly used measure of error magnitude. This accuracy criterion has the advantage of being measured in *unit-free* terms (Witt & Witt, 1991). MAPE value below 10% represents *highly accurate forecasting* (Lewis, 1982). The results are reported in Table 4. All values are in percentage. The result shows that the combination methods produce minimum error than the single models in all cases except china. This supports the argument of Altavilla & Grauwe (2010) concerning the likely utility of combination methods over single time series and econometric model when forecasting exchange rates. The three-way variance-covariance combination model is found optimal in the case of Brazil, while two-way variance-covariance combination model is optimal in the case of Russia and South Africa. A three-way equal weight combination model is found optimal only in the case of India. The results also show that volatility model beats all other models in the case of China. This support the fact that this class of models does possess utility in the context of exchange rates determination, but their main utility is when combined with other modelling techniques.

Table 4: Out-of-sample comparison of forecasting single and combination methods using MAPE

C O U N T R Y	Single model				Combination model							
					Equal weights				Variance-covariance			
					Twomodels		Three models		Two models		Three models	
	VOL	ES	CO	NI	VOL ES	VOL CO	ES CO	VOL ES CO	VOL ES	VOL CO	ES CO	VOL ES CO

Brazil	9.34	9.27	8.78	9.23	9.29	8.82	8.75	8.88	9.29	8.79	8.73	<b>8.69*</b>
China	<b>3.51*</b>	7.12	5.18	7.12	7.06	6.10	6.15	6.44	7.06	5.84	5.87	6.17
India	13.71	13.84	23.04	13.70	13.72	18.32	18.43	<b>13.61*</b>	13.72	16.18	16.41	15.21
Russia	14.65	18.99	30.26	14.01	7.75	13.29	15.84	9.32	<b>2.77*</b>	8.94	2.96	2.79
South Africa	15.55	15.62	34.65	16.24	15.53	25.05	25.13	21.91	<b>15.53*</b>	19.94	19.65	17.79

VOL- volatility model; ES - exponential smoothing model; CO - cointegration via ARDL model; N1- Naïve or no change model.\*Optimal model.

## CONCLUSIONS AND POLICY IMPLICATIONS

This study analysed the out-of-sample forecasting performance of a set of competing models of BRICS's currency against U.S. dollar. Rather than depends on single models to forecast exchange rates, the current study adopts two different approaches of combination to predict the rates. In the empirical part of the article, the initial model was identified and then compared with different models. Finally an optimal model has been selected for each series on the basis of minimum MAPE to capture the dynamics of the exchange rates of the BRICS currencies. The results suggest that the combination model bets the single competing model to determine the exchange rates of BRICS's currencies against U.S. dollar. The findings of this study also confirm that interest rates, GDP, trade openness, net export are important macroeconomic variables for predicting the exchange rates of BRICS countries. The practitioners such as policy makers, speculator, hedger and arbitrageur are most interested parties to know which macroeconomic variables impacts on exchange rate determination in short term. Therefore, the findings of this study will not only enrich the exchange rate literature on combination forecasting but also it offers material information to the practitioners for making their decision and be used more frequently in practice. However, the main limitation of this study is only five currencies and their monthly duration. For future research, empirical works on more exchange rates with shorter duration such as daily or weekly might be necessary to confirm or refute the results of this study. Also, it would be worth to test the unbiasedness (such as Wald test) of the forecasts made by competing models because simply compare the low MAPE values does not give any idea of "whether the forecasts in question are unbiased estimators of  $Y_t$ ".

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## **Impact of the 2007/08 World Financial Crisis on Ghana Stock Exchange**

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*The most recent world financial crisis of 2007/08 has had wide ranging effects on all countries, sectors and markets. Related empirical studies on Ghana, especially concerning the capital market are rare. This study thus seeks to investigate the extent of the impact of the crisis on the Ghana Stock Exchange (GSE) with respect to All Share Index and other macroeconomic variables like volume and value of shares, interest rates and inflation, employing a multiple regression model on secondary data from the GSE, the Bank of Ghana, the Ministry of Finance and economic Planning, and Ghana Statistical Service for the period 2000 to 2010. An important conclusion reached is that the crisis did not affect the GSE directly with regard to performance of the All Share Index during the crisis peak in 2007/8, but the index performed abysmally in 2009, which may have been the result of spillover effects. A notable recommendation is that the GSE should collaborate with MOFEP and the SEC to remove the existing institutional bottlenecks that caused the GSE to suffer from such spillover effects of the crisis, including measures to address the problem of low listings and illiquidity that result from low market share floats.*

### **Introduction**

#### **Background of the Study**

In its twenty-year history, the Ghana Stock Exchange (GSE) recorded remarkable performance as revealed by All-Share Index coupled with significant volumes and values of trades on yearly basis. These tended to boost investor confidence in the Exchange. But the year 2009 saw GSE recording a huge negative return of 49%, as the worst performance in the history of the Exchange. This abysmal performance is perceived to be the result of the global financial crisis that began in the United States and Europe and spread rapidly through Asia and to Africa. The Chairman of Ghana's Securities and Exchange Commission (SEC, 2009) expressed that global financial markets tumbled as a result of the financial crisis that knew no borders and respected no sovereignty in the year 2009. Investor confidence was heavily eroded, causing dramatic lowering in stock market liquidity and confronted world financial regulators with challenges apparently unknown since the 1929 Great Depression.

Various divergent views have been expressed about the impact of the crisis on the capital markets of most economies including Ghana. For instance, the United Nations Economic Commission for Africa (2009), explained that the heterogeneity of African countries caused the crisis to affect some countries more than others: the decline in economic growth in 2009 was severe in countries like Angola, Botswana, and South Africa with GDP growth rate falling more than 4 percentage points while countries like Egypt, Kenya and Ghana had their growth rate slashed between 2 and 3 percentages. The crisis affected varied countries in Africa including those considered to have good economic policies and governance; those with poor macroeconomic record; fragile states; oil and non-oil exporting countries; small and large, in various but different ways.

#### **Problem Statement**

At the outset of the global financial crisis in 2007/2008, there was the general impression and belief that African economies and their African capital markets, would not suffer the effect of the crisis, because African financial markets were perceived to be less sophisticated and less integrated into the world economy. They were also said to have very small inter-bank markets and restrictions on new financial products and limitations on market entry. This assertion in the case of Ghana's economy is

not valid as Ghana's economy is largely integrated into the world economy through international trade enhanced by globalization, electronic trade and the trade liberalization regime of the country. For example, the Bank of Ghana revealed in February, 2012 that over 50% of the total over-subscribed 3-year 15% bond sales were bought by foreign investors, another possible indication of some integration of Ghana's economy with the global economy. Ghana's economy and the key operators in the financial sector including the GSE are therefore more likely to be vulnerable to such international events like the global financial crisis.

The GSE is an investment platform which operates on the basis of international best practice and provides an opportunity for both local and international investors. Over the last eleven years, the performance of GSE was consistently positive and even emerged as the world's best performed Exchange in 2003 when it witnessed a year-on-year return of 154.67%. In 2008, it was voted the best performed Stock Exchange in Africa. But in 2009, the GSE recorded a negative return of 49%, being the weakest performance in its twenty-year history. Volume of shares traded plummeted by 81.92% from 531 million shares in 2008 to 96 million shares in 2009. Market turnover witnessed a similar trend, registering a 79.70% fall. 23 equities experienced drops in their share prices, with Fan Milk Ghana Limited being the only equity that recorded a positive change of 23%, while the remaining 11 equities maintained their share prices. The related consequences and implications afford the opportunity for our current study.

### **Aim and Objectives of the Study**

The overall aim of the study is to examine whether the global financial crisis had any effect on the GSE in relation to the volumes and values traded and the average performance of the GSE as measured by the GSE All-Share Index. Specifically, the objectives of the study are to:

- i. Identify the effect of the crisis on the volume and value of shares traded during the period of the financial crisis.
- ii. Identify the effect of the crisis on the level of inflation and general interest rates in Ghana and how these impact on the performance of the GSE.
- iii. Estimate the general effect of the crisis on investor interest and the extent of losses suffered by investors as a result of the crisis.
- iv. Identify and put forward measures, systems or structures that could minimize the impact of future occurrences.

### **Significance of the Study**

The study would benefit varied audiences. It would contribute to the volume of knowledge and literature on the operations of the GSE and help bring to light the possible effects of exogenous variables like the financial crisis on the operations of the Exchange. It will therefore help to bridge the knowledge gap. The research findings would be useful to the government and the Securities and Exchange Commission (SEC) in fashioning out measures that can help contain similar crises in the future. It will also help policy formulators like the Ministry of Finance and Economic Planning (MOFEP) to appreciate the multi-dimensional nature of credit crisis and the contagion effect on the overall economy. Besides, Licensed Dealing Members (LDMs), Authorized Dealing Officers (ADOs), financial researchers and analysts, investment advisors and the general investment community would find this study useful in the execution of their daily activities to help maximize their returns and minimize their losses in operating on the Stock Exchange. It will also be useful for further studies and research.

### **Scope and Limitations of the Study**

The study covers the trading activities of the GSE for the period from January 2000 to December 2010, the immediate past eleven years of its 20 years' existence. But the validity and applicability of the findings of the study could be constrained by the following:

- i. the study is conducted within a limited environment and within a limited time period. Therefore, the impact of causal factors and other relevant linkages falling outside the delimited period could not be considered, irrespective of their potential contributory roles.

- ii. the availability and accuracy of data. The work is largely based on published data by the GSE, the SEC, BOG and the MOFEP. It is not possible to conduct an independent validation and establish the accuracy of data provided by these institutions.

### **Organization of the Study**

The remainder of the study is organized as follows: Section II captures the review of relevant literature. Section III discusses the research methodology, followed by Analysis of Results of Data and Discussion in Section IV. Section V ends the study with conclusions and policy recommendations.

## **Section II Literature Review**

### **Introduction**

A well-developed Stock Exchange promotes investment by identifying and financing lucrative business opportunities, mobilizing savings, allocating resources efficiently and helping diversify risks (Mishkin, 2007). Stock markets have assumed a developmental role in global economics and finance as a result of their impacts on corporate finance and economic activity.

Financial crisis has gained prominence among financial experts in the last decade with the occurrence of five major financial crises. Common to all these occurrences was the fact that the turmoil originated in one market/country and extended to a wide range of markets and countries in a way that was hard to explain on the basis of changes in fundamentals (Kenourgios et al, 2009).

The financial crisis that started in the US in October 2007 and eventually spread to Europe and the rest of the world was said to have been caused by various factors. Some of these included falling US house prices after an uninterrupted, multi-year escalation; easy and cheap credit; excessive deregulation and inadequate supervision of financial institutions and rapid innovation in highly leveraged financial derivative instruments that only a few people understood (Naude, 2009). Since the crisis, various market-based and regulatory solutions have been implemented. The financial crisis is also attributed to the breakdown in corporate governance structures (Kirkpatrick, 2009). Corporate systems were not strong enough to serve the purpose of safeguarding against excessive risk taking in various institutions that provided financial services. Management of various companies did not seek Board approvals before embarking on various levels of exposures. This was worsened by incentive schemes that encouraged and rewarded high levels of risk taking.

### **Effect of the Crisis on World Stock Markets and the GSE**

The global financial crisis has had varied effects (negative and positive) on different people, different economies and different sectors of the world economy but there appears to be a consensus on the effect of the crisis on stock market activities across the globe resulting in significant share price drops. According to Ghana's SEC, the year 2009 presented a great challenge for world financial markets. The crisis eroded investor confidence causing dramatic declines in global stock market liquidity. Aluko (2008) agrees with Velde (2008), on the effect of the financial crisis on capital market operations, by indicating that the Dow Jones Industrial Average (DJIA) a major USA stock index attained its lowest point ever of 8,519.21 points on 22nd October signifying a year-on-year decline of 39.85%. The effect of the global financial crisis on the Middle East and North African (MENA) stock markets was not different.

At the onset of the global financial crisis in 2007, there was the general perception that African markets were insulated from the crisis because of the relatively limited level of integration with the world markets. This assertion was however contrasted by the end of the crisis.

Various studies exist on the effect of the crisis on the world economy, but we have very little empirical work on developing countries like Ghana (Ackah et al, 2009). Post crisis analysis however

indicates that many African markets have begun to feel the effects following the experiences of the actual crisis in the developed economies. According to the World Food Programme (2009), the impact of the economic crisis in Ghana is most evident in the composition of financial inflows, Foreign Direct Investment, the stock exchange, remittances and aid flows. This assertion was corroborated by Ackah, Bortei-Dorku, & Aryeetey (2009). They indicated that the effect of the crisis on developing countries emanated from a number of channels including the stock markets. Ghana is said to be vulnerable to the developed markets because of its very high current account deficit, very high budget deficit, aid dependency, and exchange rate depreciation.

Even though Ghana seems not to have suffered directly from the impact of the financial crisis, there is evidence to suggest that the Ghanaian capital market suffered some spillover effect from the US and other markets. According to Ghana's SEC (2009), even though the Ghanaian financial system remained sound during the financial crisis, the GSE All-Share Index declined in tandem with world markets. Twenty three stocks out of thirty three, experienced price declines; volumes traded decreased significantly resulting in 49% decline in the GSE All-Share Index, attributing the poor performance to the global financial crisis. The SEC identified a contagion effect from a meltdown in the Nigerian market to have accounted for the negative performance of Ghana's capital market because of the dual listing of Ecobank Transnational Incorporated in the two markets.

Other market experts including Olusanya (2009) confirm the effect of the global financial crisis on Ghana's capital market. For example, the Ghanaian market witnessed significant withdrawal of foreign investor funds. Ironically, these foreign investors control approximately 80% of funds on the GSE (Business and Financial Times, 2009). These liquidations resulted in share price falls with the ripple effect of stock market crashes. The GSE All-Share Index which started the year 2008 at 6,599.32 points ended the year at 10,431.6 points signifying a return of 58%. This made the GSE one of the best performers in the year 2008. The Index however plummeted in 2009 with a return of negative 49% for the year 2009 (GSE, 2009). With anecdotal evidence Ackah, et al (2009), indicates that during the crisis, there was a greater propensity to sell on the GSE, with little demand, leading to falling prices. Olusanya (2009), corroborates the effect of the crisis on the GSE that the performance of the GSE, by the GSE All-Share Index, fell by more than 11% during the first quarter of 2009. This was the converse of its performance as at the end of 2008, when it had leaped by 58.1% from its 2007 value.

### **Effect of the Crisis on the Volume and Value of Trade**

There is a widely held opinion that the higher the volume of shares traded, the higher the likelihood of a positive change in the market index. In investigating the relationship between the volume of shares traded and the performance of the market index, Kumar & Singh (2008) concluded that there is a strong evidence of positive contemporaneous correlation between absolute price changes and trading volume in the Indian stock markets. Crouch (1970) cited by Kumar & Singh (2009) also confirmed this assertion. Moosa and Al-Loughani (1995) cited by Kumar & Singh (2009) however drew a contrary conclusion during their examination of the dynamic price volume-relation for four Asian stock markets excluding India. They found a strong evidence for bidirectional relation between volume and absolute price changes. Assogbavi (2007) cited by Kumar & Singh (2009) also used vector auto regression model to analyze the dynamic relationship between returns and trading volume using weekly data of individual equities of the Russian Stock Exchange. He found strong evidence of bi-directional relationship between volume and returns confirming the position of Moosa and Al-Loughani (1995). Conversely, Datar et al (1998) and Easley et al (2002) cited by Dey (2004) provide evidence that there is an inverse relationship between individual value of shares traded and the rate of return on the individual shares. This is as a result of individual's demand for premium for holding illiquid shares. Other studies like Khrawish, Siam and Jaradat (2010), Ahmed (2008), Ioannides, Katrakilidis and Lake (2011), Maysami et al (2004), Leon (2008) and Choudhry (1999) have produced mixed results ( either positive or negative) about the effects of the crisis on macro economic variables.

Given the mixed kind of results between share price movement, trading volume and value, inflation and interests on one hand and stock market returns on the other hand especially in emerging market context, some additional results from other developing financial markets are needed to appreciate the relationship among the variables. This research therefore seeks to investigate the dynamic relationship with reference to the Ghana Stock Exchange.

### Section III

#### Study Methodology:

##### Data Types, Multiple Regression Model and Variable Specification

This study largely made use of secondary data obtained from the Ghana Stock Exchange (GSE) the Bank of Ghana (BoG), the Ministry of Finance and Economic Planning (MOFEP) and the Ghana Statistical Service (GSS). Relevant data collected from these institutions were duly processed to obtain summary results that would enable the building of an econometric model. The study uses a simple time series model which specifies the volumes and values of traded shares, the interest rates and the inflation rates as the independent variables, and the Performance of the GSE as measured by the GSE All-Share Index, the dependent variable.

Our model is based on a multiple regression function explained in Gujarati and Porter (2010) as:

$$Y_t = \beta_1 + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + U_t$$

Where Y= the dependent variable

$X_2$ ,  $X_3$ ,  $X_4$ ,  $X_5$  are the explanatory variables

U, the stochastic disturbance term;

t = the t<sup>th</sup> observation

$\beta_1$  = the intercept term; and

$\beta_2$ ,  $\beta_3$ ,  $\beta_4$ ,  $\beta_5$  are the regression coefficients.

The GSE All-Share Index is the dependent variable and represents an average measure of the performance of the Ghana Stock Exchange. It is a market capitalization weighted index which has its base as the average capitalisation for the period November 12<sup>th</sup> 1990 to December 31<sup>st</sup> 1993, the formative years of the GSE. The month ending values of the index for the period 1<sup>st</sup> January 2000 to 31<sup>st</sup> December 2010 will be employed for the analysis. The main reason for adopting this measure is to enable monthly and yearly comparisons that can provide the basis for testing the validity of other similar works.

The explanatory variables of our model are Volume Traded, Value of Shares Traded, Interest Rate, and Inflation. Volume traded refers to the number of shares traded during the period under study. The value of shares traded is a product of the price and the volume of shares traded. It is an indicator of the level of activity on the Stock Exchange. Interest rate influences the returns investors expect on their investments. The month ending interest rate on the 91-days Treasury Bills as published by the BoG on weekly basis is used as a proxy for general interest rates in the economy. This variable is included in the model because it determines where investors will invest their funds, and to a larger extent, determines the performance of the GSE All-Share Index. Inflation, measured by the Consumer Price Index (CPI) is published monthly by the GSS and has the tendency of increasing cost of living and reducing the value of disposable incomes and thereby adversely affecting people's ability to save and invest. Inflation determines security market prices and influences interest rates and returns on investments. It is included in the model as it influences people's ability to invest and it contributes to the determination of what kind of financial instruments to put in their investment portfolios.

Adapting the above multiple regression model to our current situation and applying it to the above defined variables, we arrive at a mathematical model as:

$$MarketIndex = \beta_0 + \beta_1 Vol + \beta_2 Val + \beta_3 Int + \beta_4 Inf + \varepsilon$$

Where:

*Market Index* = The Return on the Market which is measured by the GSE All-Share Index (The dependent variable).

*Vol* is the volume of shares traded;

*Val* is the value of shares traded;

*Int* is the level of interest rates represented by the interest rate on the 91-day Treasury Bills;

*Inf* is the CPI;

$\varepsilon$  is the stochastic disturbance term

$\beta_0$  is the intercept term, denoting the mean or average effect on the GSE All-Share Index of all the variables excluded from the model.

### Tests Specifications

Processed data is presented in the form of descriptive statistics, correlation matrix and regression results. The statistical tests conducted are the Spearman's correlation, Regression coefficients, and Global (F-test) to determine the overall regression model's reliability. The results are provided in Tables 1 and 2.

## Section IV

### Data Analysis and Discussion

Table 1 shows the descriptive statistics on the relationship between the dependent and the independent variables. The maximum and minimum points of the index indicate the highest and lowest points of gain and loss respectively, within the eleven-year period using the average market capitalisation of the first three years of the GSE's existence as the base.

**Table 1: Descriptive Statistics (2000 -2010)**

Variable	Mean	Std Deviation	Minimum	Maximum	No. of Entries
<b>Index (points)</b>	4,721.20	3,159.62	739.73	18,465.15	131
<b>Volume</b>	13,305,031	32,479,845	345,000	327,010,100	131
<b>Value</b>	7,222,197	17,461,850	83,500	156,081,410	131
<b>Interest rate (%)</b>	22.01	10.83	9.35	47.00	131
<b>Inflation (%)</b>	17.89	8.42	8.58	41.90	131

Source: Computed from market data from the GSE, BoG and GSS (2000 – 2010).

Both the Trading Volume and Value within the period were widely dispersed, illustrating a steady growth in both variables from year 2000 to 2010. Wide dispersion in the levels of inflation and interest rate is also indicated which appears to demonstrate continuous and consistent improvement in the macroeconomic environment.

Table 2 details the regression results obtained from the application of the Ordinary Least Square method. These results explain the type and magnitude of the relationship among the various independent variables. The  $R^2$  value of 0.746 indicates that the independent variables are responsible for 75% of the movement of the GSE All-Share Index, implying a high explanatory power of the model. The F-statistic of 92.358 at a 5% level of significance indicates that the margin of error is insignificant which helps to confirm that all the variables in the probability Test are statistically significant and individually contribute significantly to the movement of the GSE All-Share Index. The model can therefore be relied on as a predictive tool. Further, the high figure for  $R^2$  in Table 2 also appears to suggest a high level of multicollinearity, implying a strong linear relationship among the various explanatory variables. A possible way to reduce the impact of multicollinearity could have been by means of stepwise regression which could reduce the number of explanatory variables

included in the model. This way, only those explanatory variables that are highly significant would be included in the model equation. But this could be a task for another day.

**Table 2: Regression Results**

Variable	Regression Coefficient	Standard	T. Values	Level of Significance
Constant	<b>3.538</b>	<b>0.179</b>	<b>19.779</b>	<b>0.00</b>
Volume	<b>-0.376</b>	<b>0.071</b>	<b>-5.298</b>	<b>0.00</b>
Value	<b>0.517</b>	<b>0.064</b>	<b>8.09</b>	<b>0.00</b>
Interest Rate	<b>-0.018</b>	<b>0.004</b>	<b>-4.999</b>	<b>0.00</b>
Inflation	<b>0.003</b>	<b>0.004</b>	<b>0.84</b>	<b>0.404</b>
R	<b>0.864</b>			
R <sup>2</sup>	<b>0.746</b>			
F. Value	<b>92.358</b>			<b>at 5% level of significance.</b>

Source: Computed from Data from GSE, BoG and GSS (2000 – 2010)

The negative regression coefficient of -0.376 for the volume of shares traded on the performance of the GSE All-Share Index implies that a per unit increase in the volume of shares traded leads to a fall in the GSE All-Share Index by 0.376 which contradicts most of the existing literature like Crouch (1970) and Kumar & Singh (2008). This inverse relationship between the GSE All-Share Index and the volume of shares traded is mainly due to the structure and composition of the Index. Companies listed on the GSE with bigger market capitalisation tend to exert a stronger influence on the movement of the index. But the works of Moosa and Al-Loughani (1995) after their examination of the volume-index relationship of four Asian stock markets and Assogbavi (2007) showed neutral or bi-directional effects. The positive regression coefficient of 0.517 between the value of shares traded and the movement of the GSE All-Share Index illustrates a more than proportionate increase in the GSE All-Share Index caused by increase in the value of traded shares, which confirms the views of most experts like Dey (2004).

An inverse relationship between the level of interest rates and the GSE All-Share Index is also revealed by the Regression result which appears to support the long held financial dictum of an inverse relationship between the level of interest rates and stock market returns. But we should not forget that most of the listed companies on the GSE finance their operations from borrowing; a higher interest rate regime will therefore increase their finance cost which will ultimately impact adversely on profitability, and render their shares less attractive to investors. These findings confirm the earlier findings of Maysami et al (2004) who concluded that there is a negative relationship between the Singapore capital market indices and the level of interest rates and many others like Leon (2008) who confirmed an inverse relationship between nominal Treasury bill yields and stock market returns in the US and Korean markets. Pal (2011) and Khrawish, et al (2010) however contrasted their stand.

The inflation coefficient of 0.003 implies a positive relationship but appears insignificant. This finding is largely because of the financial illiquidity among investors and fund managers during periods of lower inflation and vice versa. This trend appears to be in line with Bank of Ghana's monetary policy of inflation targeting that helped to squeeze some liquidity out of the system. These findings confirm the results of researchers like Choudhry (1999) and Ahmed (2008) but contrast the findings of others like Kenourgios, et al (2009).

## Section V

### Conclusions and Policy Recommendations:

The first conclusion of the study is that the volume and value of the traded shares, inflation and interest rates had some effects on market return as measured by the GSE All-Share Index. Second, the global crisis subsided in 2009 with the following experience in Ghana: the volume of shares



traded and the value fell significantly; the level of interest rates increased thus impacting negatively on the performance of the GSE All-Share Index; and finally, the rate of inflation increased during the earlier months of the year but later receded during the latter part, thus impacting negatively on the performance of the GSE All-Share Index; all as per the model results.

It could therefore be concluded that even though the financial crisis did not affect the GSE directly with regard to the performance of the index during the peak of the crisis in 2007/2008, the index suffered in 2009, which may have resulted from the spillover effects from the 2007/2008 global financial crisis. The effect was much pronounced because of existing structural weaknesses and other exogenous developments including low number of listings and illiquidity due to low market share floats. The introduction of electronic trading in the year 2009 may have resulted in investors' fear of the unknown and its initial challenges associated with change. Investors might have adopted "wait and see" approach to ascertain the workability of the system before making any investments. On external factors, the change of government in 2009 also introduced skepticism as investors, especially foreign ones could have adopted a 'wait and see' attitude to assess the major policy direction of the new government before making any commitments on the GSE. Collectively, all these developments might have resulted in an unprecedented negative return of 49% in the GSE in the year 2009.

An important recommendation of the study is that the GSE, in collaboration with the MOFEP and the SEC should work towards removing the existing institutional bottlenecks that made the GSE suffer from the spillover effect of the crisis. These measures should help to address the problem of low number of listings and illiquidity due to low market share floats. Government should consider using the GSE as a vehicle to divest its holdings in corporate entities. This will help increase the number of listed equities and thereby help to improve liquidity. Secondly, investors should be encouraged to do active trading of their holdings in the market to improve liquidity. In this regard, institutional investors like the Social Security and National Insurance Trust (SSNIT) should be encouraged to regularly trade their holdings to avoid the current situation in which the market suffers from small market floats of the blue chip companies because of the 'buy and hold' mentality of key institutional investors. Lastly, the SEC should continue to perform and enhance its supervisory role to ensure investor confidence in the various players on the capital market including the GSE, the Licensed Dealing Members (LDMs), Authorised Dealing Officers (ADO) and the entire investor community.

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## **Currency Volatilities in Africa: The Case of Southern African Development Community**

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*The objective of the present study is to investigate exchange rates volatility in Africa particularly in the SADC countries. Foreign exchange volatility is a recurrent theme in finance, recent applications involved Maradiaga et al. (2012) and Menkhoff et al. (2010). Most of these studies focused on developed world currencies and very little has been achieved in developing countries. In this paper, the author examines FX volatility in a region that falls in the latter category, the SADC. One of the main contributions of this paper is applying Time Series approach to examine a panel of ten currencies. The paper concludes with recommendations for policy makers in Africa.*

### **Introduction**

After the collapse of Bretton Woods system in 1971, the world entered a new stage of increasing instability. This triggered destabilisation in the economy with the spectacular increase in volatility within foreign exchange markets. As Geweke, Horovitz and Pesaran (2006) observed, not only economic theories were challenged in these new circumstances, but also econometric models developed in the 60s were no longer able to accommodate the volatile reality of economy. Thus, the development of existing methodologies was prompted. The most significant steps were made by Box and Jenkins (1976) who presented ARIMA methodology and then by Engle (1982) who introduced ARCH – type modeling. According to Morana (2009), although exchange rate volatility is seen by many researchers “to hold the potential in affecting the economic welfare of any nation”, yet most of the studies on exchange rate volatility are focused mainly on developed and to an extent emerging markets with studies on Less Developed Countries (LDC’s) almost non-existent. By investigating the exchange rates of SADC countries the author of this paper aims to fill this gap in the literature whilst providing the reader with an analysis of the drivers of exchange rates volatility within selected regions in Africa.

This article applies ARIMA time series approach to monthly exchange rates of the Angolan kwanza, Botswana pula, Democratic Republic of Congo, Malagasy ariary, Malawi kwacha, Mauritian rupee, Mozambique metical, Seychelles rupee, South African rand, Tanzanian shilling and Zambian kwacha. The next section provides a brief review of literature on exchange rate volatility and a description of the SADC. The methodology is presented in section 3, followed by the data analysis section. Results and conclusions are the last two sections of the paper.

### **Literature**

Richard (2007), states that volatility plays a very important role in any financial market around the world, and it has become an indispensable topic in financial markets for risk managers, portfolio managers, investors, academicians. It is well known that the choice of an exchange rate regime strongly influences exchange rate volatility. Bissondeal (2008) studied different exchange rates for post Bretton Woods periods and concluded that there is a relationship between nominal exchange rate and prices. Similarly, Flood & Rose (1995, 1999) found that the choice of an exchange rate arrangement affects pricing of the currency: higher flexibility goes ahead with increasing volatility and vice.

Empirical results by Berger et al. (2000) indicate that not only the type of the exchange rate regime affects volatility, but even a “wrong” choice of a peg induces higher exchange rate volatility than a peg which is in line with the macroeconomic condition. The existing exchange rate arrangements for SADC countries show that most of them, including South Africa’s are independently floating.

Frömmel and Menkhoff (2003) additionally identified changes in monetary policy settings as a determinant of volatility switches. They show that changes in the monetary policy may lead to structural breaks in exchange rate volatility. Khamfula and Huizinga (2004) concluded that a lack of monetary policy coordination has really been an important source of both short-run and long-run real exchange rate variability in most of SADC. Ruiz (2009) examined whether there are common factors driving volatility across emerging markets. Her results display evidence that volatility movements in foreign exchange markets are mainly country specific and concluded that common volatility processes seem to be present only for a few countries.

The main focus of this paper is to examine whether fluctuations in the currencies of the SADC currencies are driven by a regional trend or whether they are affected by macro economic factors which are country specific and therefore will demand a more peculiar analysis of the monetary and fiscal policies at a national level.

### **ABOUT SADC (Case Study area)**

SADC is the largest regional economic grouping in sub-Saharan Africa (SSA); it accounts for about half of regional GDP at market exchange rates (Burgess 2009). The SADC comprises 15 states and seeks to promote peace, security, and economic integration among member countries. These are countries are Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia, Zimbabwe, South Africa and Seychelles. SADC is one of eight regional economic communities formally recognised by the African Union as building blocks towards achieving an African Economic Community. SADC aims to achieve and maintain macroeconomic stability in the region. Its stated economic goals include a monetary union by 2016 and a single currency by 2018.

The striking diversity of SADC member countries means that macroeconomic targets realistic and appropriate for one subgroup of member countries maybe unachievable for other group of member countries. In fact, according to a Regional Economic Outlook report (IMF 2009) for sub-Saharan African, SADC is divided into four groupings: Middle-income countries (South Africa, Botswana, Lesotho, Namibia and Swaziland), Low-income countries (Madagascar, Malawi, Mozambique, Tanzania and Zambia), Fragile countries (Democratic Republic of Congo and Zimbabwe) and Oil exporters (Angola). This is to say that time series techniques should be combined with other techniques with more explanatory powers to account for the uniqueness of every currency.

### **Data set description:**

National currency exchange rates per SDR for Angola, Botswana, Congo DR, South Africa, and Zambia were collected from the International Financial Statistics (IFS-IMF). These data were obtained in a monthly frequency from January 1980 to December 2009. This data screening results in ten series containing around 2640 observations. It should be noted that the currencies of Lesotho, Swaziland and Namibia are pegged to the South African rand and therefore were excluded from the analysis. The currencies of Zambia and Democratic Republic of Congo were excluded from analysis too because of data scarcity. The data were grouped into two panels:

Historical period: covering period from the beginning of the data stream up to 31st December 2007.

Hold-back period: covering period from the 1st January 2008 up to 30th September 2009. Historical period data were used to derive the models, while hold-back period data served for ex-post model testing.

### **Methodology**

In his seminal paper, Engle (1982) proposed to model time-varying conditional variance with Auto-Regressive Conditional Heteroskedasticity (ARCH) processes using lagged disturbance. The ARCH model developed by Engle (1982) is a model that allows the conditional variance to be time varying,

while the unconditional variance is constant (Akgul and Sayyan 2008). The introduction of the AutoRegressive Conditional Heteroscedasticity model (ARCH) in Engle (1982) has created a new path in volatility modeling techniques for researchers and practitioners alike (Evans & MacMillan 2007). The ARCH methodology is used in this survey to model the behaviour of exchange rates over time. Others variations of ARCH include GARCH (Bollerslev, 1986) which requires the joint estimation of the conditional mean model and the variance and thus allows the conditional variance to be an autoregressive moving average (ARMA), EGARCH (Nelson, 1991), the threshold-GARCH (TGARCH) model of Glosten et al. (1993) which refers to the fact that volatility is higher after a negative shock than after a positive shock. Exponential GARCH (EGARCH) model of Nelson (1991), GJR model of Glosten et al. (1993) and Asymmetric Power ARCH (APARCH) model of Ding et al. (1993) are models which are defined to take account of the asymmetry effect (Akgul and Sayyan 2008). A number of articles are dedicated to reviews of the ARCH-class of model, Poon and Granger (2003, 2005) and Degiannakis and Xekalaki (2004). (See also Bollerslev et al. (1992), Bera and Higgins (1993) and Bollerslev et al. (1994).) Results in appendix 1 show different combinations of autoregressive and moving averages terms were needed to model the various currencies.

Engle introduced the term conditional variance of the error term, denoted by  $\sigma_t^2$ . The conditional variance means:  $\sigma_t^2$  is estimated given information about the errors in previous time periods. In particular, if the conditional variance at time t is related to the squared error time (t-1), we have what is called an ARCH (1) process and:

$$(1) \quad \sigma_t^2 = \alpha_0 + \alpha_1 \mu_{t-1}^2 \dots$$

The ARCH (1) model says that when a big news shock happens in period (t-1) it is most likely that  $\mu_{t-1}^2$  has a large (absolute) value as well. That is, when  $\mu_{t-1}^2$  is large, the variance at the next time period (t) will be large. The AR (1) part is referred to as the mean equation; the ARCH (1) part is referred to as the variance equation. In an ARCH (q) process the conditional variance at time t is influenced by the squared error at times (t-1), (t-2), (t-q) and:

$$(2) \quad \sigma_t^2 = \alpha_0 + \alpha_1 \mu_{t-1}^2 + \alpha_2 \mu_{t-2}^2 + \dots + \alpha_q \mu_{t-q}^2 \dots$$

In equation (2), the conditional variance depends on q lags of the squared errors. All of the  $\alpha_i$  must be greater than zero to ensure a positive conditional variance. An extension of the ARCH (q) process was developed independently by Bollerslev (1986) and Taylor (1986) and is called the generalized ARCH process or GARCH. GARCH model allows the conditional variance to be dependent upon its own previous lags as well as the squared error terms of the ARCH models. In its simplest case, we have:

$$(3) \quad \sigma_t^2 = \alpha_0 + \alpha_1 \mu_{t-1}^2 + \beta_1 \sigma_{t-1}^2 \dots$$

Equation (3) is referred to as GARCH (1, 1) model. The GARCH (1, 1) model states that the conditional variance of the errors is a function of an intercept term, information about volatility during the previous time period ( $\alpha_1 \mu_{t-1}^2$ ) and the fitted conditional variance from the model during the previous period ( $\beta_1 \sigma_{t-1}^2$ ). What is referred to as the ARCH term ( $\alpha_1 \mu_{t-1}^2$ ) reflects the impact of news shocks in the short term; the GARCH term ( $\beta_1 \sigma_{t-1}^2$ ) reflects the long-term impact of news shocks. A GARCH (q, p) model has the form:

$$(4) \quad \sigma_t^2 = \alpha_0 + \alpha_1 \mu_{t-1}^2 + \alpha_2 \mu_{t-2}^2 + \dots + \alpha_q \mu_{t-q}^2 + \beta_1 \sigma_{t-1}^2 + \beta_2 \sigma_{t-2}^2 + \dots + \beta_p \sigma_{t-p}^2 \dots$$

A potential limit of applying the GARCH model to business and financial data is that it presumes that the impacts of positive and negative shocks are the same or symmetric. This is because the conditional variance in these equations depends on the magnitude of the lagged residuals, not their sign. Such consideration led to the development of asymmetric volatility models, specifically the threshold GARCH (TGARCH) (Glosten, Jaganathan and Runkle 1993; Zakoian 1994) and the exponential

GARCH (EGARCH) (Nelson 1991). The threshold model is a simple extension of the (G) ARCH scheme, with an extra term(s) added to account for possible asymmetries. The EGARCH (1, 1) model can also accommodate asymmetry and specifies the conditional variance in a different way:

$$(5) \quad \ln(\sigma_t^2) = \alpha_0 + \alpha_1 \frac{|r_{t-1}|}{\sigma_{t-1}} + \beta_1 \ln(\sigma_{t-1}^2) + \gamma_1 \frac{r_{t-1}}{\sigma_{t-1}} \dots$$

One reason that the EGARCH model has been popular in financial applications is that the logarithm of the conditional variance appears on the left side of equation (5), guaranteeing that forecast of the conditional variance will be non-negative and no associated constraints are needed. It also permits asymmetries via the  $\gamma_1$  term and if  $\gamma_1 < 0$ , bad news leads to an increase in volatility. If  $\gamma_1 = 0$ , the model is symmetric.

ARCH-GARCH models were generated for all currencies and the results are available on the table below:

**Table (1) Mean equations**

Angolan kwanza (sqrt)	Constant	AR(1)	AR(2)
ARIMA (2,1,0)(0,0,0)	0.072 3.097	0.385 4.715	0.185 2.266
t-statistic	0.002	0.000	0.025
Significance	PP t=-14.629 p=0.000		
Botswana pula (logs)	Constant	MA(2)	
ARIMA (0,1,2)(0,0,0)	0.006 3.050	-0.158 -2.320	
t-statistic	0.003	0.021	
Significance	PP t=-16.148 p=0.000		
Malagasy ariary	MA(2)		
ARIMA (0,1,2)(0,0,0)	-0.255 -4.051		
t-statistic	0.000		
Significance	PP t=-14.483 p=0.000		
Malawi kwacha (sqrt)	Constant	AR(1)	
ARIMA (1,1,0)(0,0,0)	0.060 3.853	2.252 3.799	
t-statistic	0.000	0.000	
Significance	PP t=-12.131 p=0.000		
Mauritian rupee (logs)	Constant	SAR(1)	SMA(1)

ARIMA (0,1,0)(1,0,1)	0.004 3.146	-0.840 -3.538	-0.760 -2.730
t-statistic	0.002	0.000	0.007
Significance	PP t=-17.760 p=0.000		
Mozambique metical (logs)	AR(1)	MA(1)	MA(2)
ARIMA (1,1,2)(0,0,0)	0.993 125.898	0.727 11.124	0.200 3.085
t-statistic	0.000	0.000	0.002
Significance	PP t=-14.847 p=0.000		
Seychelles rupee (logs)	MA(1)		
ARIMA (0,1,1)(0,0,0)	-0.146 -2.279		
t-statistic	0.024		
Significance	PP t=-13.562 p=0.000		
South African rand (logs)	Constant		
ARIMA (0,1,0)(0,0,0)	0.005 2.276		
t-statistic	0.024		
Significance	PP t=-14.770 p=0.000		
Tanzanian shilling (logs)	Constant	MA(1)	
ARIMA (0,1,1)(0,0,0)	0.009 4.386	-0.144 -2.228	
t-statistic	0.000	0.027	
Significance	PP t=-16.416 p=0.000		

Time Series ARCH-GARCH models are used in this research. Computation was carried out with SPSS 17 (statistical package for social science) to generate mean equation and E-Views 7 to test whether the models are econometrically valid. To apply time series models, data must be stationary. Stationarity of a data set is defined as a statistical equilibrium, where the distribution of the variable does not differ at all or differ insignificantly over the time. Ng-Perron tests were then conducted to ensure that time series was trend stationary.

**Table (2) Volatility equations:**

	$\omega_0$	$\omega_1$	$\omega_2$	$\beta_1$
<b>Angolan kwanza</b> EGARCH(1,0) t-statistic Significance	0.088 2.932 0.003 LL=108.622	0.485 5.347 0.000 SBC=-1.317	0.169 2.577 0.010 Q(12)=17.432 (0.065)	QSQ(12)=3.370 (0.971)
<b>Botswana pula</b> GARCH(2,2) t-statistic Significance	0.006 5.126 0.000 LL=500.113	0.121 1.911 0.056 SBC=-4.477	Q(12)=10.921 (0.450)	QSQ(12)=6.173 (0.862)
<b>Malagasy ariary</b> EGARCH(2,1) t-statistic Significance	LL=-1156.714	SBC=10.885	Q(12)=7.290 (0.775)	0.129 2.645 0.008 QSQ(12)=0.877 (1.000)
<b>Malawi kwacha</b> GARCH(2,1) t-statistic Significance	0.026 3.199 0.001 LL=114.445	0.214 11.050 0.000 SBC=-0.823	Q(12)=10.519 (0.484)	QSQ(12)=4.865 (0.937)
<b>Mauritian rupee</b> EGARCH(1,1) t-statistic Significance	0.003 3.531 0.000 LL=545.850	-0.744 -14.350 0.000 SBC=-5.220	Q(12)=3.7244 (0.959)	0.728 13.803 0.000 QSQ(12)=2.638 (0.989)
<b>Mozambique metical</b> GARCH(1,2) t-statistic Significance	LL=463.013	0.536 7.363 0.000 SBC=-4.176	Q(12)=11.365 (0.330)	0.186 2.293 0.021 QSQ(12)=2.072 (0.996)
<b>Seychelles rupee</b> GARCH(2,1) t-statistic Significance	LL=808.300	SBC=-7.394	Q(12)=14.755 (0.194)	0.363 4.058 0.000 QSQ(12)=6.629 (0.828)

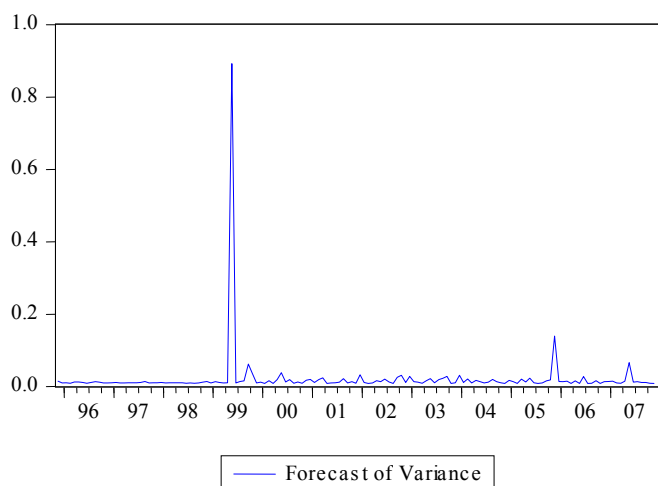
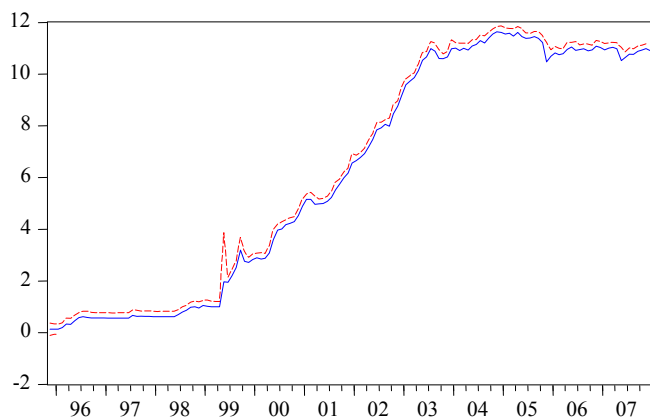


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<b>South African rand</b>	0.006 5.548 0.000			
EGARCH(2,1) t-statistic Significance	LL=470.910	SBC=-4.255	Q(12)=7.5412 (0.820)	QSQ(12)=12.477(0.408)
<b>Tanzanian shilling</b>	0.008 4.228 0.000			0.222 3.154 0.001
GARCH(0,2) t-statistic Significance	LL=483.254	SBC=-4.370	Q(12)=14.855 (0.189)	QSQ(12)=15.656(0.154)

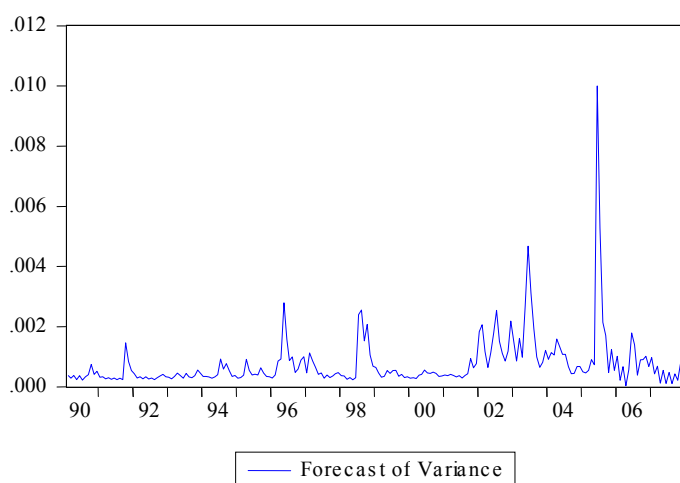
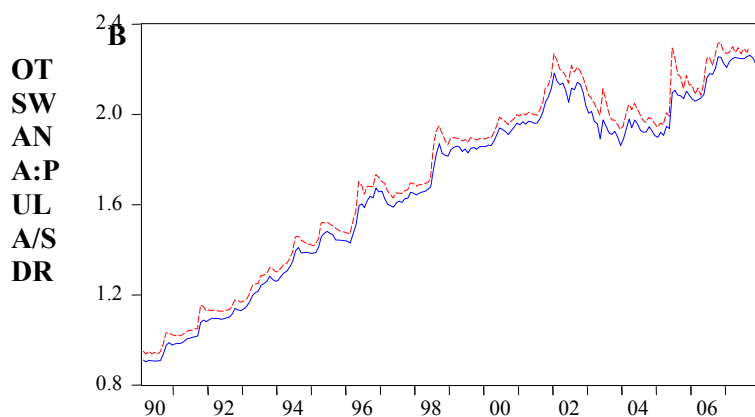
## Results

This research provides evidence that currencies of the SADC behave differently and are not affected by a regional trend. This means that the financial integration is weak ahead of the 2018 deadline (except for the Common Monetary area countries: Lesotho, Swaziland and Namibia where the rand is traded at par). The Angolan kwanza was very volatile in 1999 after a period of relative calm throughout the 1990's. The sudden volatility is attributed to the fact that the government decided to end the kwanza's peg to the dollar, which took effect in 1994 as a measure to stabilize the local currency in wartime. From 1999 onwards the value of the readjusted kwanza was driven down because of the huge sums of capital fleeing the country as a result of the renewal of the atrocities between the Angolan factions. In the last couple of years, investor confidence has improved towards the country and many see Luanda (the capital) as a hub for their East African business with opportunities abundant in services and industry. EGARCH (with two lags) models the behavior of the Angolan kwanza's which means that the current value of the currency will be affected by the changes in the exchange rates up to two previous months. The results also support the findings of Ruiz (2009) where she stated that exchange rates volatility is prone to country specific factors.

### ANGOLAN KWANZA /SDR

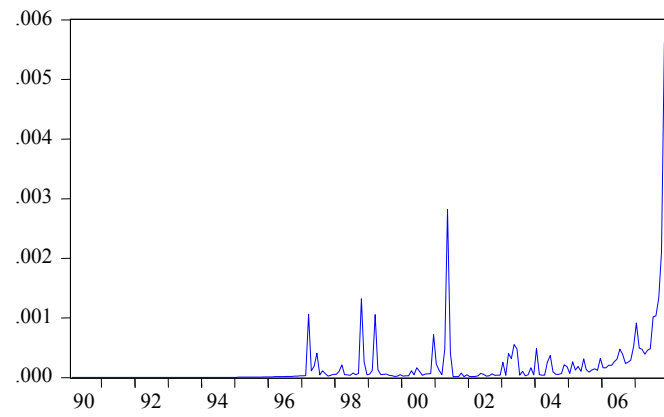
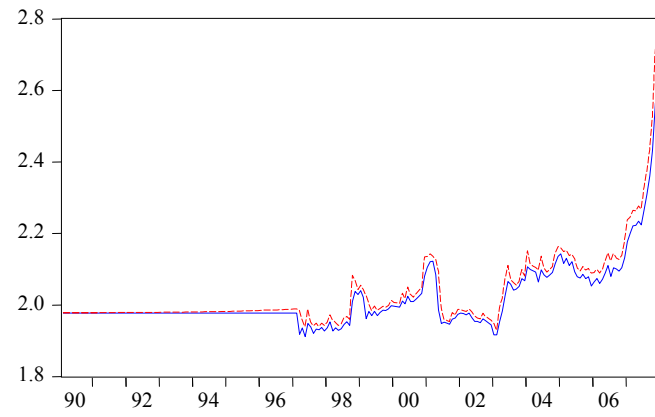


Botswana, one of the most resource-rich countries in the world, has experienced remarkable growth for several decades. The abundant resources promoted growth in the country by giving a “big push” to the economy as witnessed on the variance graph between 2004 and 2006. GARCH (2,2) models the behaviour of the Botswana pula and produces a good fit which represent the basis of good forecasting (MAPE=1.042) while EGARCH (2,1) seems to be a good fit for the Malagasy ariary; Madagascar is one of the most important biodiversity conservation 'hotspots' worldwide and is home to about 25 percent of all African plants. (World Bank: country Portfolio Evaluation, 2007).



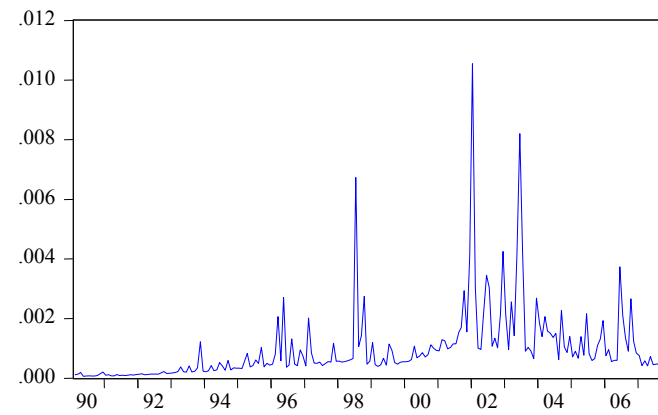
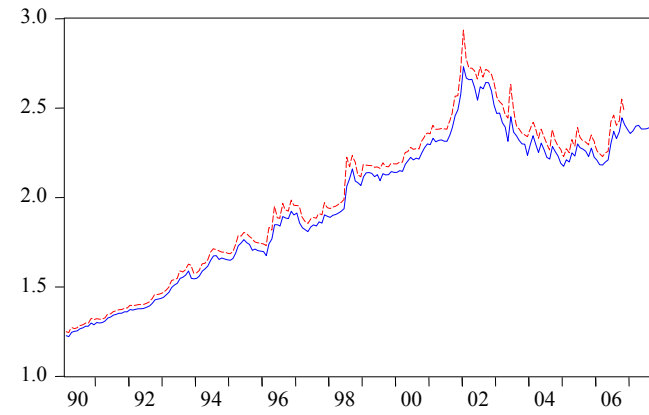
The volatility of the currency in 1994 is attributed to the rate of inflation that jumped as a result of the financial support received from the Global Environment Facility (GEF) to support its projects in biodiversity and to the issuance of new 500 ariary and 5000 ariary bank notes by the central bank. The forecast of variance graph shows period of high volatility in Mozambique during early 90's due mainly to the civil war in the country. GARCH (2,1) models the monthly exchange rate of the metical and provides a good fit with a good forecasting ability (MAPE=1.593). South Africa, with three currencies pegged to its rand (Namibia dollar, Lesotho loti, Swaziland lilangeni) unified its exchange rate regime and adopted a free floating regime for its currency management. The currencies of Namibia, Lesotho and Swaziland are all pegged to the rand on 1:1 parity. EGARCH (2, 1) was required to model the behaviour of the rand and thus provides a good fit for future forecast (MAPE=1.144). In Tanzania, the Central bank played a dominant role to stabilize the interbank market. This can be witnessed by looking at the forecast of variance graph since the access to the exchange market was limited and all FX bureaux were prohibited from participating in the interbank market from July 1996. GARCH (0,1) with one lag was need to capture the behaviour of the Tanzanian shilling and thus provides a good fit with a good forecasting ability (MAPE=0.288).

### SEYCHELLES RUPEE/SDR



— Forecast of Variance

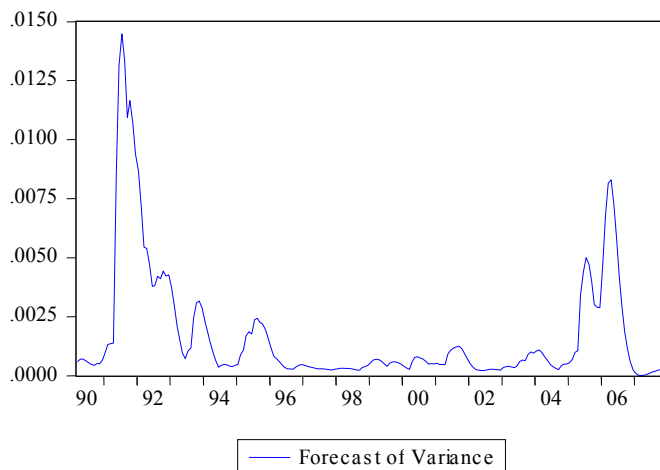
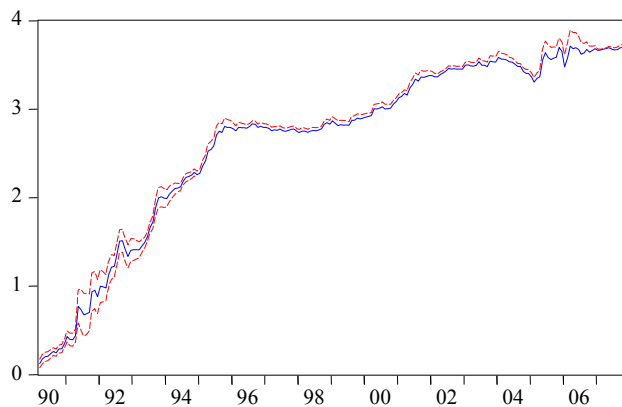
### SOUTH AFRICA RAND/SDR



— Forecast of Variance



## MOZAMBIQUE METICAL/SDR



## Conclusion

The non availability of data has been the main challenge of this research. Africa is transforming very fast and future research should focus on currencies that have moved recently from fixed regime to floating regime and that hold an increasing potential of volatility. This paper shows that the volatility within one currency is dictated by local financial and fiscal aggregates rather than being the direct impact from neighbouring countries.

Co-integration approach of Engle and Granger (1987) has got the potential to test much more complicated financial time series data which were impossible to be tested within a traditional ARIMA fashion. Variables like oil price for Angola and copper production for Zambia can have a major effect on their respective currencies and hold therefore a huge explanatory power towards their volatilities.

From another point of view, the fact that the boundaries between the auction market, interbank market, bureau market and parallel market (this is where the currency can be bought or sold) are not clearly defined, limits the action of any government to monitor its currency volatility in real time. For example, the parallel market was dominant in Angola during the 1990's while bureau markets were very active in Mozambique and Mauritius (Johnston 1999) and hence the official rate announced by the central bank doesn't reflect the real value of the currency since different markets have different rates.

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## Drivers of Mobile Banking adoption by South African Students

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*Although cell phone subscribers in South Africa have grown exponentially in recent years, in contrast, cell phone banking (CB) patronage continues to lag, despite its advantages. This study therefore investigates consumers' perceptions of attributes of CB and their influence on adoption. Data were collected from a sample of 282 university students. Results suggest that self-efficacy, complexity, and relative advantage are among the important factors influencing adoption. The implications of these findings are that banks should focus more attention on promoting CB channels through demonstrations in order to educate customers on its advantages and security.*

### Introduction

Given that almost half of the South African population is unbanked and under-banked (Daniels, 2004; Kirsten, 2006), banking technologies such as telephone banking, automated teller machines (ATMs), and cell phone banking provides opportunities for extending banking services to reach critical masses of unbanked consumers (Brown, Cajee, Davies, & Stroebel, 2003). The literature consistently demonstrates that remote banking technologies have the greatest potential of promoting access to banking services in that financial institutions need not rely only on erecting physical bank branches to serve customers, but can also do so through existing technologies such as automated teller machines (ATMs), telephones, and cell phones (Gu, Lee, & Suh, 2009; Kumar & Gupta, 2008; Rugimbana & Iversen, 1994). More specifically, Jayamaha (2008) explains that modern banking transcends the confines of four walls and a roof, and can conveniently reside in consumers' pockets in the form of ATM cards, debit cards, credit cards, and cell phones.

More importantly, remote banking channels allow customers the convenience of anytime and anywhere banking – without the restrictions of banking during specific business hours in a bank branch. On the other hand, remote banking channels are not only cheaper distribution alternatives for banks (Devlin & Yeung, 2003); having a mix of products such as ATMs, Internet banking, and CB also leverage banks' ability to provide customised and convenient services to their customers.

Given the popularity of cell phones and the explosive growth of cell phone users in South Africa (Business Wire, 2010; CIA 2010), it is sensible to assume that uptake of CB should out-perform all other remote banking channels (Brown et al., 2003). Surprisingly, recent studies seem to suggest otherwise. These show that CB is not the preferred mode of banking compared to ATMs and telephone banking (Brown et al., 2003; Shambare & Rugimbana, 2011). Given its advantages to consumers and banks as well as its potential in addressing the question of unbanked individuals, the reluctance of South African consumers in adopting CB is deserving of further investigation.

It is for this reason that the purpose of this study is to investigate the factors influencing the adoption of cell phone banking. Special emphasis is placed on the student and young consumer segments, mainly for two reasons. Firstly, the young adult market is considered by many authors as being highly innovative, in that they are among the first to adopt technological innovations (Meuter *et al.*, 2005; Robertson, 1967). Hence, studying this segment may provide valuable insights into the adoption and diffusion processes of remote banking channels. Secondly, students represent a very important consumer segment for banks. If banks capture this market early on, they have greatest chance of having them as customers-for-life.



The remainder of the paper is structured as follows: in the following section cell phone banking in South Africa. Next, the CB adoption conceptual model followed by research objectives is presented. Following on, the research methodology applied in this research is discussed. Thereafter, findings and the discussion of results are presented. Finally, the paper concludes with a presentation of implications for theory and research as well as brief concluding remarks section.

### **Cell phone banking in South Africa**

All of the 'Big Four' and many other banks in South Africa (ABSA, FNB, Nedbank, and Standard Bank) provide cell phone banking services. As with traditional banking, customers, through their cell phones, can perform various banking activities including transferring funds, checking balances, and paying bills (Gu *et al.*, 2009). Current CB technology use the Unstructured Supplementary Services Data protocol (USSD) (Van, 2009), which is a menu-driven communication that utilises commands similar to those used when recharging airtime (e.g., \*120\*1234#).

Unlike when it was first introduced, consumers today no longer need WAP-enabled cell phones to access their accounts (Brown *et al.*, 2003). Since USSD is session based, it is safe and secure because it provides an interactive dialogue between the bank and its clients through a certain set of applications and menus. It is different from the 'store and forward' technology of short messaging services (SMS) in that both sides of the dialogue happens simultaneously during a session. Non-response from either party automatically terminates that connection. Whereas an SMS based interaction is simplex in nature; communication travels only in one direction at a given time and often is broken into (non-continuous) segments of communication between the parties. USSD is duplex (two-way) and happens in real time (Krugel, 2007:18). A clear advantage of USSD, like SMS, is that it is compatible with almost any type of mobile device. Thus the USSD function has made CB safer, simpler, and more cost effective for consumers.

Although its uptake was rather low when introduced, industry experts argue that CB's popularity is growing steadily (SouthAfrica.info, 2007; 2009). However, reliable data on the size of the CB market is scanty and sometimes contradictory. While industry literature is abounding with accounts of an upsurge in cell phone banking usage, scientific literature in the area is almost silent. There is a paucity of research in the area as academic literature on CB in South Africa is still in its infancy. The literature that exists is mostly from industry reports as well as few empirical studies conducted in the last decade. In 2002 it was estimated that some 780, 000 (approximately 6 per cent of South Africa's 13 million cell phone subscribers) used cell phone banking services. By the end of 2010, First National Bank (FNB), one of the 'Big Four' banks, puts the figure at 1.29 million South Africans using CB (Pienaar, 2009). While this is almost double the 2002 figure, it represents only about 3 per cent of the 49 million cell phone subscribers in 2010. Today, latest statistics show that there are at least 37 per cent of banking customers using CB services (Mansfield, 2011). While the sector has experienced growth in terms of CB clients in the last decade, this growth rate is not comparable to that of cell phone usage. In 2002, there were 13 million cell phone subscribers, and this number grew to almost 49 million by the end of 2010 (CIA, 2010; ITU, 2011).

Such widespread adoption of cell phones as witnessed in recent years is in itself not just impressive, but also presents interesting implications for the marketing of related products including cell phone banking (Shambare & Rugimbana, 2011). Recent industry reports also reveal that South Africans increasingly show more preference towards CB over other self-service banking technologies (Mobile-Financial.com 2009; Pienaar, 2009; SouthAfrica.info, 2007; 2009). Even Pienaar (2009), a banking technology specialist, argues that CB is increasing its popularity among customers. Although it is argued that some 28 per cent of banking customers prefer CB compared to about 16 per cent that utilise Internet banking (SouthAfrica.info, 2009), these assertions are yet to be verified. What is clear though is that the numbers of cell phone banking customers are yet to reach a critical mass of consumers and still too low for financial institutions to realise return on their investment in cell phone banking technology (Brown *et al.*, 2003). This on its own warrants further research into cell phone banking.

## **Cell phone banking adoption framework**

From a marketing point of view, it makes good business sense for financial institutions to understand the reasons why consumers adopt or reject products. The adoption of new technological innovations is well-documented by authors such as Meuter et al., (2003), Robertson (1967), Rogers (1995), and Rugimbana & Iversen (1994). The literature provides a wide array of predictor variables that influence adoption of innovations. These range from perceived product attributes to culture to personality. Authors such as Rogers (1995) posit that the perceived characteristics of the product influence its adoption. On the other hand, Parasuraman (2000) proposes personality variables explain the greatest variance in the adoption of new innovations. For the purposes of this study, perceived product attributes framework, as proposed by Rogers' (1995) Innovations Diffusion Theory (IDT) is utilised as it is widely used in adoption studies in the financial services marketing discipline (Agarwal & Prasad, 1998; Robertson, 1967; Rugimbana & Iversen, 1994; Shih & Fang, 2004; Taylor & Todd, 1995; Meuter et al., 2005).

The IDT framework posits that the adoption of new innovations is influenced by consumers' perceptions towards the innovation. These perceptions are formed around five key characteristics of the innovation, namely relative advantage, complexity, compatibility, observability, and trialability. More specifically, Rogers (1995:16) explains that innovations that are perceived by individuals as having greater relative advantage, compatibility, trialability, and less complexity will be adopted more rapidly. These characteristics are briefly discussed next.

### ***Relative advantage:***

Agarwal and Prasad (1998) demonstrate that the advantage an innovation has relative to another method is positively related to its rate of adoption. It is therefore suggested that CB will only be adopted if it provides some form of advantage traditional banking channels such as in-bank branches and other technologies such as telephone banking and ATMs. One clear advantage of CB to the bank branch is the notion of anytime and anywhere banking. CB users are not restricted to the usual '9-5' banking hours, and can literally conduct banking from anywhere and anytime of the day 24 hours and 7 days a week. Unlike telephone banking, which are fixed within homes or offices, cell phones are portable and subscribers can commute and use their cell phones wherever they go. Thus, the mobility of CB proves to be more advantageous than telephone banking. With respect to Internet banking, bank customers require to have a desktop computer or laptop and connection to the Internet through an Internet Service Provider (ISP) via a modem. All of these attract additional costs. However, with CB, the cell phone is an "all-in-one" package that is ready to connect to the user's bank account. These features collectively define CB's relative advantage over other banking channels and ultimately affect its rate of adoption (Brown *et al.*, 2003).

### ***Perceived compatibility:***

Compatibility refers to how well a technology fits with an individual's self-concept, lifestyle, values, and needs (Rogers, 1995). In the context of CB, compatibility is the extent to which consumers' lifestyle fits with cell phone usage. In other words, if cell phones are extensively used by a consumer, that consumer would feel a greater sense of connection with cell phones. Recent studies also suggest that cell phone users increasingly adopt add-on features and functions to cell phones at a faster rate than non-users (Hooper & Zhou, 2007). In contrast, if a consumer does not see a connection with cell phones, she will less likely adopt cell phones and other appendages such as CB. Brown et al. (2003) argue that individuals with relatively more cell phone experience tend to develop a greater sense of compatibility, which in turn promotes adoption of cell phone banking. Consequently remote banking services will most likely be adopted by consumers whose lifestyles are more compatible with their lifestyle.

### ***Perceived complexity:***

Complexity or the level of difficulty of using an innovation is inversely related to its adoption (Meuter *et al.*, 2005; Taylor & Todd, 1995). The more difficult a product is to use, the less likely consumers

would be willing to use the product. It is therefore sensible to suggest that CB will only be adopted by clients who perceive the use of cell phones and cell phone banking as easy to use. The notion of CB complexity is somewhat related to compatibility in that as subscribers use CB services, their proficiency improves and it is expected that the perceived sense of complexity diminishes. Consequently, the greater the perceived complexity of remote banking medium, the less likely they will be adopted.

***Trialability:***

Trialability is the extent to which consumers are afforded the opportunity to try out new innovations because purchasing them. A classical example is test-driving an automobile before committing to its purchase. Potential adopters who are allowed to experiment with the innovation before purchase are likely to evaluate its performance beforehand, and thus are more likely to adopt it (Agarwal & Prasad, 1998; Tan & Teo, 2000). Thus, the adoption of CB is more likely if it is demonstrated to customers. Banks therefore should create platforms with which customers can easily try out CB. Trialability is most applicable to first time users, who usually need extra assurance in their abilities not only in performing tasks but also peace of mind that they will not ‘break’ the technology.

Although Rogers (1995) identifies five key predictors of adoption, recent studies illustrate that other attributes such as perceived risk, self-efficacy, and facilitating conditions are important predictors of adoption. As a result, the authors incorporated these predictor variables in the conceptual model for this study.

***Perceived risk:***

One of the major influencing factors around the establishment and use of new technologies for financial transactions is that of security and trust (Brown et al., 2003; Pienaar, 2009). The need for security of personal details and financial information is therefore critical to the success of cell phone banking. A key security issue related to cell phone banking on the part of consumers is the possibility of losing their money. Comparatively, Internet banking appears to be more secure than CB in that users have passwords and also utilise ‘one-time passwords’ sent through cell phones or emails. Thus, with CB the sense of additional security is non-existent. The latter, therefore, needs to tie in with customer demonstrations and education. As a result, the lower the perception of risk involved in using cell phone banking, the more likely that it will be adopted.

***Self-efficacy:***

This refers to the confidence potential adopters have in their ability to use a specific technology (Taylor & Todd, 1995). Specifically Brown et al (2003) indicates that extensive experience with cell phones is associated with a greater sense of self-efficacy with cell phone and CB usage. Therefore, the higher the individuals’ skill-level, the higher the chances the technology will be adopted.

***Facilitating conditions (technology support):***

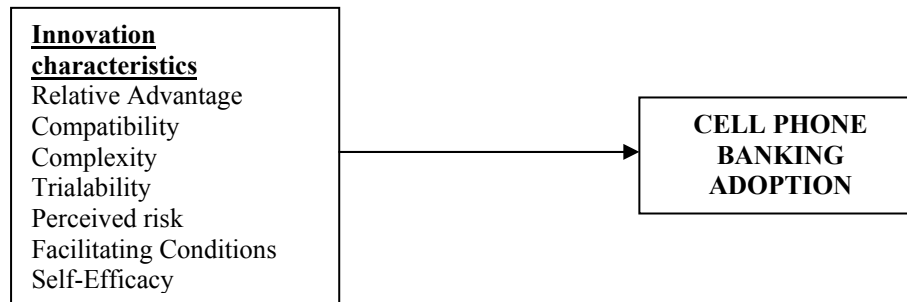
This construct may be interpreted to include support from both the mobile phone service providers as well as from the banks (Brown *et al.*, 2003). Some new users of technology may develop anxiety when it comes to using a technology. Therefore, these consumers need assurance that help and reliable support will always be available should they need it. Cell phone banking is more likely to be adopted if there are better facilitating conditions.

**Conceptual Model**

According to the IDT framework, consumers evaluate the decision to adopt or reject an innovation through a series of cognitive processes. These are (1) awareness and knowledge of the product, (2) evaluation and information acquisition of the product, (3) decision to adopt the product and (4) to use it, and lastly (5) the post-purchase evaluation of the performance of the innovation. The 7 characteristics discussed above therefore constitute the predictor variables for this study. Each of the predictor variables were measured using a multi-item attitudinal scales on a 5-point Likert Scale (1 = Strongly Disagree; 5 = Strongly Agree) (Brown et al., 2003).

Because getting customers to try a new technology is a key barrier to adoption, ‘CB Trial’ was considered the focal dependent variable (Brown et al., 2003; Meuter et al. 2005). Accordingly, this study operationalised consumers’ adoption of cell phone by using a single-item question assessing whether respondents had tried using CB or not. Since the latter technique has been tried and tested in past studies such as Brown et al. (2003) and Meuter et al. (2005), researchers saw it as a good measure for adoption. Figure 3 illustrates the proposed relationship of variables in the conceptual frame.

**Figure 3:** CB adoption conceptual model



### Research objectives

Despite the advantages of CB (e.g., convenience, anytime-anywhere banking, privacy, and saving time) being well-documented in the literature (Brown et al., 2003; Devlin & Yeung, 2003), adoption of cell phone banking in South Africa still remains low. Against this background, the research objectives were to establish the reasons behind the adoption and non adoption of cell phone banking in South Africa. The following research question was formulated:

**RQ:** *What are the most important factors affecting cell phone banking adoption among university students in South Africa?*

Subsequently, the following hypotheses were formulated:

- H<sub>1</sub>:** *the greater the perceived complexity of CB, the less likely that it will be adopted.*
- H<sub>2</sub>:** *the greater the perceived compatibility of CB, the more likely that it will be adopted.*
- H<sub>3</sub>:** *the greater the perceived relative advantage of using CB, the more likely that it will be adopted.*
- H<sub>4</sub>:** *the greater the perceived trialability of CB, the more likely that it will be adopted.*
- H<sub>5</sub>:** *the greater the perceived self-efficacy of using CB, the more likely that it will be adopted.*
- H<sub>6</sub>:** *the greater the facilitating conditions of pertaining to CB, the more likely that it will be adopted.*
- H<sub>7</sub>:** *the greater the perceived risk of using CB, the more likely that it will be adopted.*

### Research methodology

The current study replicates the methodology applied by Brown et al. (2003). A cross-section survey method was used (Blumberg et al., 2008). Data were collected using a self-completion from students at a South African university.

### Sample

The study sought to investigate factors influencing adoption of cell phone banking among students. To increase representativeness, a sample of university students was drawn, using the mall-intercept technique, at shopping malls in Pretoria (Blumberg et al., 2008). Research assistants distributed

questionnaires at strategic locations at shopping malls. Out of the 400 questionnaires distributed, some 282 respondents and usable for analysis, representing about 70 per cent response rate.

### **Questionnaire**

In order to accurately measure constructs identified in the conceptual model, the study utilised an adapted questionnaire used in Brown *et al.*, (2003) (Calder *et al.*, 1981). The questionnaire was pre-tested on 15 undergraduate students to ensure that the questions would be understood by the target audience. The structure of the final questionnaire included a cover letter and four sections covering questions on: (1) cell phone features and functions used; (2) respondents' banking profile; (3) perceptions of CB features; and (4) demographic details.

### **Results**

The results of the data analysis are presented in the following format. First, the demographic profile of research participants is presented. Second, respondents' banking profiles are discussed. Lastly, the investigation of the latent variables through factor analysis is presented.

#### **Demographic profile**

The demographic profile of the research participants is summarised in Table 1.

**Table 1: Demographic Profile**

Demographic Characteristics		Per cent (%)
<i>Gender</i>	Male	45
	Female	55
<i>Age</i>	< 20 years	9
	21 – 24 years	50
	25+ years	41
<i>Education</i>	High School	22
	University Diploma/ Degree	60
	Postgraduate	18
<i>Own a cell phone?</i>	Yes	98
	No	2
<i>Monthly Income</i>	< R5, 000	54
	R 5, 000 - R20, 000	24
	R20, 001+	22
<i>Employment</i>	Part-time student (employed)	40
	Full-time student	60
<i>Marital Status</i>	Married	18
	Single/ Divorced	82

#### **Respondents' banking profile**

Tables 2a, 2b, and 2c summarise respondents' banking profile. Savings accounts followed by current accounts were the preferred accounts. The low to moderate prevalence of more sophisticated accounts such as car and home loans (11.3 per cent) was also expected since students' financial needs are usually not expected to be as intricate of working professionals. Table 2b presents this data.

**Table 2a:** Types of bank accounts used

Bank	Count	Percentage
<i>Savings Account</i>	249	90.5
<i>Current Account</i>	89	32.4
<i>Car/ Home Loan</i>	31	11.3
<i>Personal Loan</i>	18	6.5
<i>Fixed-Deposit</i>	15	5.5
<i>Other Account</i>	10	3.6

It was also important to ascertain the extent to which the different banking distribution channels were used. ATMs, by far, proved to be more popular with almost 91 per cent of respondents using this mode of banking. Related to ATMs is the electronic funds transfer point of sale (EFTPoS), in which consumers swipe their ATM or debit cards in retail outlets to make purchases. Overall, EFTPoS users were 71 per cent of the sample. Interestingly, cell phone banking usage was the least popular means of banking.

**Table 2b:** Remote banking channel preference

	Count	Percentage
<i>ATM</i>	258	91
<i>Bank branch</i>	210	74
<i>Store/ shop (EFTPoS)</i>	200	71
<i>Internet Banking</i>	192	68
<i>Cell phone Banking</i>	190	67
<i>Telephone</i>	162	57

**Table 2c:** Extent of channel use (1 = never, 6 = daily)

	Mean	Min.	Max.	Std. Dev.
<i>Telephone</i>	4.71	1	6	1.82
<i>Bank branch</i>	4.58	1	6	1.07
<i>Internet Banking</i>	3.77	1	6	1.97
<i>Cell phone Banking</i>	3.73	1	6	2.04
<i>EFTPoS</i>	3.68	1	6	1.56
<i>ATM</i>	3.38	1	6	1.12

Some 43 per cent of respondents indicated that they have tried (adopted) CB (Table 3). Further investigation of those that use CB revealed that the most preferred function was checking account balances followed by buying airtime and getting a mini statement from the bank.

### ***Scale measurement and factor analysis***

The objective of the study was to establish the factors influencing the adoption of CB among students. Principal components analysis (PCA) was performed to determine construct validity of the 20-item scale measuring the 7 predictor variables (Field, 2009). The factorability statistics were satisfactory (KMO = 0.649; Bartlett's Test of Sphericity  $X^2 = 1101.3$ ;  $p < 0.000$ ) (Tabachnick & Fidell, 2007). A seven-factor solution with eigenvalues greater than 1, explaining 73 per cent of the variance was subsequently extracted (Table 4).

**Table 4:** The 7-factor solution of predictors of adoption of cell phone banking

	Factor 1 Self-efficacy	Factor 2 Triability	Factor 3 Risk	Factor 4 Compatibility	Factor 5 Complexity	Factor 6 Tech. Supp	Factor 7 Rel. Adv	Communalities
SE 2	.892							0.855
SE 1	.870							0.802
SE 3	.794							0.768
TRIAL 2		.892						0.819
TRIAL 3		.824						0.731
TRIAL 1		.758						0.739
RISK 2			.834					0.737
RISK 3			.823					0.755
RISK 1			.816					0.748
COMP 2				.832				0.775
COMP 3				.831				0.797
COMP 1				.721				0.568
COMPLX 2					.776			0.759
COMPLX 1					.766			0.665
COMPLX 3					.710			0.641
TECHSUPP 2						.887		0.845
TECHSUPP 1						.859		0.831
REL. ADV 2							.786	0.724
REL. ADV 1							.710	0.620
REL. ADV 3							.508	0.333
Eigenvalues	4.932	2.661	1.685	1.554	1.356	1.232	1.110	(Total)
% of variance	24.659	13.303	8.427	7.769	6.779	6.159	5.552	72.648
Cronbach's alpha ( $\alpha$ )	0.876	0.847	0.810	0.749	0.669	0.797	0.647	

**Tests of model and hypotheses**

To test the model and hypotheses, the authors utilised logistic regression analysis (Pallant, 2010). The model contained 7 independent variables (risk, complexity, self-efficacy, trialability, compatibility, facilitating conditions, and relative advantage) identified the factor analysis and depicted in Table 5. The model was significant, with a Goodness of Fit ( $X^2 = 33.976$ ;  $df = 13$ ;  $p < .0005$ ) and the Hosmer and Lemeshow Test ( $X^2 = 9.498$ ;  $p = .302$ ) was also acceptable. These tests indicated that the model was able to distinguish between respondents who reported to have adopted CB from those who did not. The model explained between 15.6 per cent (Cox & Snell R squared) and 20.8 per cent (Nagelkerke R squared) of the variance, with approximately 70 per cent classification accuracy (Pallant, 2010). This indicates that approximately 70 per cent of the sample was correctly classified as either using CB or not. Of the seven predictor variables, three made significant contribution to the model: complexity ( $B = -.611$ ;  $Wald = 9.253$ ;  $p < .002$ ), self-efficacy ( $B = .551$ ;  $Wald = 6.144$ ;  $p < .013$ ), and relative advantage ( $B = .397$ ;  $Wald = 3.967$ ;  $p < .046$ ).

To further test these predictors, we analysed results using an independent-samples t-test to determine whether the means for each of the predictor variables identified in the model differed significantly between the trial and non-trial groups. Table 5 summarises this data, and provides support for the logistic regression results.

**Table 5:** The 7-factor solution of predictors of adoption of cell phone banking

Predictor	Mean (1 = Strongly disagree; 5= Strongly agree)		t-value	p-Value
	Adopters	Non-Adopters		
Complexity	2.206	2.619	3.853	.000
Relative Advantage	3.986	3.604	-3.760	.000
Self-efficacy	4.060	3.633	-3.709	.000

**Discussion**

Seven predictor variables were tested; only three (complexity, relative advantage, and self-efficacy) provided statistically significant results relating to adoption. The results suggest that complexity and self-efficacy, and relative advantage are most important predictors seem satisfactory. The literature consistently illustrates that three predictors (relative advantage, complexity, and compatibility) explain the greatest variance in adoption of new technologies (Agarwal & Prasad, 1998). Given that this research conforms to two of the ‘big three’ is exciting.

The reason why compatibility, in the present study, might have not been a significant predictor instead of self-efficacy could be explained by the nature of the sample. In the study, the majority (59 per cent) of the sample was younger than 25 years old, which Nicholas, Rowlands, Clark, and Williams (2011) calls the Google Generation who tend to be more experienced than any other ‘generation’ when it comes to the use of technologies including cell phones. Nicholas et al.’s (2011) findings are consistent with Hooper and Zhou (2007), who posit that cell phone usage among students is compulsive, habit-forming, and addictive in that students are always on their cell phones experimenting and always on the look-out for new features and functions. It is arguable that because of the Google Generation places more emphasis on their abilities and confidence in cell phones, self-efficacy, therefore, becomes more important than compatibility (Rogers, 1995). In contrast, compatibility appears to refer to the extent to which consumers assess a



technology that they might have not yet used in relation to their lifestyle. But self-efficacy deals with a technology that consumers are already familiar and comfortable in using. The latter appears to corroborate findings by Brown *et al.* (2003) that increased diversity of cell phone improves CB adoption.

Another important finding relates to relative advantage. Figure 4, above, indicates that the most frequently used functions of cell phone banking are checking balances and airtime purchase. This is sensible in that students generally are heavy users of cell phones, which many authors posit such behaviour as habitual, addictive, and compulsive (Hooper & Zhou, 2007). Therefore, purchasing airtime on cell phones to continue using one's cell phones is a reasonable assumption. The implication therefore is that students might be a ready-market for cell phone banking.

The concept of complexity or ease of use is best understood in the context of Davis' (1995) Technology Acceptance Model (TAM). The latter author posits that if a technology is not complicated to use (or is easy to use), such a technology therefore becomes useful to the consumer. As in the case of purchasing airtime, above, it CB is simple to use, consumers would be motivated to use it. Financial institutions therefore need to clearly understand the needs of their clients as well as understanding how and why their current clients are using CB (Mansfield, 2011).

In terms of CB, trialability and perceived risk seem to be the features that decelerate the rate of adoption. Current practices appear not to provide customers with adequate room for trying out these technologies. Trialability might benefit first time users in equipping them with the much-needed confidence and self-efficacy needed to successfully conduct banking through cell phones. On the other hand, the perception of safety appears not to be considered by banks. A key security issue related to cell phone banking on the part of consumers is the possibility of losing their money. Comparatively, Internet banking appears to be more secure than CB in that users have passwords and also utilise 'one-time passwords' sent through cell phones or emails. Thus, with CB the sense of additional security is non-existent. The latter, therefore, needs to tie in with customer demonstrations and education since many consumers, especially those with low-technology literacy levels, differentiating USSD and SMS technologies is challenging.

### **Limitations and future research**

The limitations associated with the present study are as follows. Firstly, the Rogers' (1995) conceptual model on the adoption of cell phone banking was not exhaustive. Other models such as the Theory of Planned Behaviour or Theory of Reasoned Action could also have been used. Secondly, the sample utilised was university students. Drawing a sample from a more representative segment may provide different results. Future studies could also consider different sample groups including the elderly and working individuals. Comparative studies examining adoption processes among the different remote banking channels, such as between Internet, telephone, and ATMs may also provide better understanding of cell phone banking.

### **Conclusion**

Given that South African banking institutions have invested significantly in developing cell phone banking channels, it is important for these institutions to get return on investment. Therefore, understanding factors influencing CB adoption is likely to provide important strategic intelligence to financial institutions. Perceptions towards risk and security concerns and trialability appear to slow the adoption rate. While banking institutions have done a lot in launching cell phone banking, focussing attention on promoting CB through customer demonstrations may further improve adoption rate. Demonstrations are important especially for two reasons. Firstly, consumers need assurance from their banks that CB is safe. It is difficult for some consumers to grasp how USSD works. Many consumers view USSD and SMS technology as the same thing. The greatest fear could be, 'if I enter my password

and commands and my cell phone is stolen or I leave it on my desk, then someone will steal from me.’ Banks need to allay these fears through obligation-free demonstrations. Another perfect example of Trialability can be seen with how Capitec Bank is promoting the use of ATMs in its branches. Capitec Banks is a South African bank that specialises in the low-income market segments. Most of Capitec ATMs are located inside the branches, and there is always a bank employee located close to the ATM to assist customers, should there be a need. Having the ATMs in the branch and a stand-by attendant provides comfort and stability for customers. However, demonstrations for cell phone banking in branches, at least at the time of this study in South Africa, were non-existent, and something that banks should look into.

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## **International Aids, Economic Policy and Strategies**

## **An analysis of competitiveness of lowland and upland rice production systems in Eastern Uganda**

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*The paper analyses competitiveness of upland and lowland rice production systems in Eastern Uganda. The results show that both systems are generally competitive with lowland rice being slightly more competitive than upland rice. Econometric results show that the most critical factors affecting competitiveness include: education, extension contact and farm size. The results therefore suggest that efforts to promote education (informal and formal), increasing frequency of extension contact and farm size will improve competitiveness of both rice systems. Encouraging farmers to adopt available productivity enhancing technologies will increase productivity without encouraging them to encroaching on already degraded wetlands.*

### **Introduction**

Rice is an important staple food for about half of the human race constituting a major part of the diet in many countries with 33% to 49% of the world population depending on rice for its main diet. It is harvested on about 158 million hectares of land, representing 9% the planets agricultural land and annual production of 660 million tonnes. Globally, farmers need to produce at least 8–10 million tonnes of rice each year over the coming decade to meet demand and keep prices stable (International Rice Research Institute-IRRI, 2010).

In Sub Saharan Africa, rice is recognized as an important strategic component of food security; as such it has gained prominence in the farming systems and diets in Africa (Ochollah *et al.*, 1997). The crop ranks fourth among the cereal crops in Uganda, occupying a total of 119 thousand hectares of land. The production of rice is done primarily by smallholder farmers, who have limited capital resources and using rudimentary tools like hoes, pangas and slashers. Rice cultivation is wide spread throughout the country under three systems (or ecologies) classified as rain-fed upland; rain-fed low land and irrigated. Of the three, rain-fed lowland is the most widely grown covering 65,000 ha of land, followed by rain-fed upland which covers 40,000 and then irrigated rice covers only 5,000 ha (MAAIF, 2009).The level of domestic rice production and consumption is estimated at 165,000 and 225,000 tonnes respectively, leaving a huge gap of 65,000 tonnes being filled by rice imports. Annually, additional 300 hectares of land in Uganda is brought under rice cultivation (FAO, 2005) as a result of which production is expected to increase. This has been attributed to increase in urbanisation, the decline in millet, cassava and banana production which are the major staple foods in the different parts of the country and the desire for import substitution (MAAIF, 2009; Ocholla *et al.*, 1997).

In order to fill the existing knowledge gap about the rice industry , several stakeholders have conducted studies aimed at highlighting rice production constraints Musime *et al.*,( 2005);

resource use efficiency Kyomuhendo (2005); profit efficiency Hyuha *et al.*, (2007) and adoption of NERICA varieties and lowland rice especially in Eastern Uganda (Kijima *et al.*, 2010). Within these efforts none has focused on competitiveness of two subsystems upland (rain fed) and low land (rain fed) subsystems. This study therefore explores the production scenarios of the two major rice production systems (Lowland and upland rice) in Eastern Uganda with the view of determining which of the systems performs better and why in order to deliver workable policy options.

## Methodology

### Sample selection

The study was carried out in the districts of Bugiri, Butalejja and Palisa in Eastern Uganda. The region was chosen because it produces over 60 percent of rice in the country. We used multistage sampling technique to collect primary data. This involved purposive selection of the districts and sub-counties based on their rice production level and the presence of both lowland and upland production systems. This was followed by random selection of rice farmers from the sub-counties. Data from 180 respondents (90 for lowland and 90 for upland rice) was used for the analysis. Using structured questionnaires, data collected included resources employed and costs, yield and prices. Secondary data was also obtained from the Central bank of Uganda.

### Analytical method

Data were analysed using descriptive statistics and Ordinary Least Square (OLS) regression method. Summary statistics such as mean and standard errors were also employed. To determine the competitiveness of rice enterprise, Unit Cost ratio (UCR) was used. The UCR method developed by Siggel and Cockburn (1995), was selected because it is a microeconomic method of analysis which best used to distinguish between comparative advantage and competitiveness of a farm(firm) and it is a ratio of total costs to total revenue for a particular firm. UCR uses three variants,  $UCR_d$  (domestic competitiveness),  $UCR_x$  (international competitiveness) and  $UCR_c$  (comparative advantage), of a unit cost indicator derived from Ricardian comparative advantage to determine the sources of competitiveness for a particular firm or industry. The unit cost indicator used in this study is based on domestic competitiveness,  $UCR_d$  proposed by Siggel (1997) and it is structured as:

$$UCR_d = \frac{TC}{VO} = \frac{TC}{Q \cdot P_d} \quad (1)$$

Where  $UCR_d$  = domestic unit cost ratio, TC = total costs, VO = value of output (total revenue), Q = quantity of product,  $P_d$  = domestic producer price  
 $UCR_d$  of less than one indicates that a farm covers all costs, including the opportunity cost of capital. However,  $UCR_d$  exceeding one indicates that the farm does not cover all costs plus opportunity cost of capital and is therefore not considered competitive.

Following Siggel and Ssemogerere (2000), Unit cost ratio for determining competitiveness of upland and lowland rice production systems was specified as follows:

$$UCR_i = \frac{TC_i}{OV_i} \quad (2)$$

$$TC_i = \sum X_j P_x + C \quad (3)$$

$$OV_i = \sum Q_i P_y \quad (4)$$

Where  $UCR_i$  is the unit cost of  $i^{th}$  rice production system;  $TC_i$  is the total cost of  $i^{th}$  system;  $OV_i$  is the value of the output of  $i^{th}$  system;  $Q_i$  is the quantity of output from the  $i^{th}$  production system,  $P_y$  is the price per Kg of rice;  $X_j$  is quantity of the  $j^{th}$  resource used in  $i^{th}$  production system,  $P_x$  is the unit cost of the  $j^{th}$  resource,  $i$  is production system index representing upland rice and lowland rice,  $C$  is the opportunity cost of capital. Capital used in rice enterprise is mainly machinery (pangas, hoes, sickles, slashers, sacs and gunny bags). Opportunity cost of capital is computed as the value of farm assets minus outstanding debts multiplied by market interest rate (Siggel, 1997). Total cost comprised the total variable cost (labour, seeds and chemicals) and opportunity cost of capital. The value of output was the product of the total rice output and sales from it.

**Factors influencing competitiveness in the two systems**

Following Atieno *et al.*, (2008) and Toit *et al.*, (2010), an Ordinary Least Square (OLS) regression model was used to determine factors that influence competitiveness of upland and lowland rice production systems. The model shows the relationship between Unit Cost Ratio (which is inversely related to competitiveness) and the determinants of competitiveness. Two separate models which were transformed into double log were estimated for the two production systems and were specified as:

**Model 1: Lowland rice**

$$Y_1 = \beta_o + \beta_1 Edu + \beta_2 HH + \beta_3 Exp + \beta_4 Fsize + \beta_5 Spz + \beta_6 Crd + \beta_7 Ext + \beta_8 Fgp + \beta_9 Dst + \beta_{10} Fsale + \varepsilon_1 \dots \dots \dots (5)$$

**Model 2: Upland rice**

$$Y_2 = \beta_o + \beta_1 Edu + \beta_2 HH + \beta_3 Exp + \beta_4 Fsize + \beta_5 Spz + \beta_6 Crd + \beta_7 Ext + \beta_8 Fgp + \beta_9 Dst + \beta_{10} Fsale + \varepsilon_2 \dots \dots \dots (6)$$

Where,

- $Y_1$  = the competitive indices of lowland given as  $TC_i/OV_i$  (Unit Cost Ratio) and has an inverse relationship with competitiveness
- $Y_2$  = competitive indices of respectively upland rice production systems,
- $Edu$  = number of years of formal education (-ve);
- $HH$  = household size (+-ve);
- $Exp$  = experience in rice farming in years(-\_ve);
- $Fsize$  = farm size in hectares (-ve),
- $Spz$  = degree of specialisation in hectares(-ve);
- $Crd$  = access to credit (-ve);
- $Ext$  = extension contact (-ve);
- $Fgp$  = belonging to farmers group (-ve);
- $Dst$  = distance to the market in km (+ve);
- $Fsale$  = form of rice sold (-ve);
- $\beta_s$  = the coefficients to be estimated and  $\varepsilon$  the error term and the terms in brackets are apriori expectations.

**Results and discussion**

**Socio-economic characterisation of sampled rice farmers**

The mean age of sampled farmers is 38 and there is a five-year difference between the mean ages of lowland rice farmers (35) and upland rice farmers (40), which is statistically significant (Table 1). This is an indication that relatively younger persons are involved in both production systems and therefore there is likelihood of increased productivity. This result is corroborates earlier

finding by (Hyuha, 2006 and Hyuha et al., 2007). Average farm size also differs between the two categories of farmers. Lowland rice farmers own significantly smaller plots (0.47ha) than upland rice farmers (0.64ha). There is an increasing pressure by environmentalists to conserve wetlands and this might explain the reason why relatively smaller plots are allocated to lowland rice as most of it is grown in wetlands.

In terms of experience in rice cultivation, lowland rice farmers have an average of 11years of accumulated rice farming as compared to nine years for upland rice farmers. This was however expected since upland rice is still relatively new crop in the farming system. The mean years of education shows that on average, the highest level of education attained by a farmer is secondary level although lowland rice farmers have more years of formal education than upland rice farmers.

**Table 1: Demographic and socio-economic characteristics of rice farmers**

Characteristic	Overall (n=180)	Lowland rice (n= 90)	Upland rice (n = 90)	t-values <sup>1</sup>
	Mean	Mean	Mean	
Age (years)	38.02 (-1.34)	35.92 (-1.34)	40.12 (-1.34)	-2.272**
Education level (years)	8.57 (-0.20)	9.33 (-0.24)	7.81 (-0.29)	4.032***
Household size	7.94 (-0.29)	6.93 (-0.37)	8.94 (-0.42)	-3.604***
Rice farming experience (years)	9.85 (-0.21)	11.12 (-0.30)	8.58 (-0.21)	6.976***
Rice farm size (ha)	0.55 (-0.03)	0.47 (-0.03)	0.64 (-0.05)	-2.831***
Degree of specialization (ha)	0.39 (-0.02)	0.32 (-0.02)	0.43 (-0.02)	-2.831***
Land size (ha)	1.64 (-0.10)	1.48 (-0.09)	1.81 (-0.19)	-1.60

Source: Computed from field survey data, 2011

The average household size is high among sampled farms (7.9). Large households have been reported to enhance family labour availability since it reduces labour constraints in rice production (Idiong *et al.*, 2007). On average, lowland rice farmers had significantly smaller household size (6.9 persons) compared to upland rice farmers (8.9 persons). The results revealed that upland rice farmers had larger plots and this might explain the reason why they have larger household size. The mean land size was 1.48ha and 1.81ha lowland and upland rice farmers, respectively, but it was not significantly different.

<sup>1</sup> Testing difference in means between lowland and upland rice farmers



The results of the non continuous variables show that membership in farmers' organisations and credit access were significantly different for lowland and upland rice farmers with more lowland rice farmers accessing credit (54.44% versus 30%) and belonging to farmers groups (71.11% versus 30%) than upland rice farmers. The difference in the significance of membership to farmer groups between the two rice systems may be a reflection of how the groups were formed. In upland system, they were more political than coming together to solve a common problem. Similarly, fewer upland rice farmers are accessing credit probably because upland rice is being promoted by the government. As result, some of the items for which farmers could borrow money were provided free by the government.

**Table 2: Summary of statistics of non-continuous variables<sup>2</sup> for lowland and upland rice farmers**

	Whole sample	Lowland rice	Upland rice	Chi-square <sup>3</sup>
	(%)	(%)	(%)	
Extension access (% yes)	15.56	18.89	12.22	0.217
Herbicide usage (% yes)	28.33	25.56	31.11	0.408
Fertiliser usage (% yes)	1.67	0.00	3.33	0.081
Credit access (% yes)	42.22	54.44	30.00	0.001
Membership of farmers group (% yes)	46.67	71.11	22.22	0.000

Source: Computed from field survey data, 2011

The results further show that upland rice farmers were more inclined to fertilizer use (3.33% versus 0.00%) than lowland rice farmers. This might be due the efforts by National Agricultural Advisory Services (NAADS), an organization charged with the responsibility of encouraging farmers to use fertilizers in various crops for increased output. On the other hand, there was no significant difference in herbicide usage among the two groups of farmers (25.56% vs 31.11%). However, overall fertilizer and herbicide usage shows a generally low level of input use among the farmers and this is not only specific to rice, but to other crops (Asimwe, 2010).

### Competitiveness of rice production systems

Estimates of Unit Cost Ratio (indicator of competitiveness) for the pooled sample, lowland and upland rice farmers are presented in table 3. The results indicate that rice production in the study area is generally competitive since the cost per unit of output (unit cost) was less than one. This implies that the value of output was more than the cost of production. The Unit Cost Ratio for lowland rice was significantly lower (0.21) than that for upland rice production system (0.3), indicating that lowland rice is slightly more competitive than upland rice. This might be a reflection of higher productivity (1.89 tonnes/ha) and unit price (1,412 shs/kg) for low land rice compared to upland rice (1.75 tonnes/ha and 1,137 shs/kg) since there is no significant difference in total per hectare between the two categories of rice farmers in the study area. MAAIF (2009) also found out the productivity of lowland rice is greater than that of upland rice in Uganda (2.4tonnes/ha vs2.2 tonnes/ha). Idiong *et al.*, (2007) had similar observation in rice production in Nigeria.

<sup>2</sup> Values of categorical variables indicate the proportion of farmers taking on particular qualitative attributes

<sup>3</sup> Testing for significant difference between lowland and upland rice farmers

The results further indicate that the value of output per hectare in the lowland rice production system was significantly greater than the upland production system. Value of output is the product of output price and output quantity. This might be a reflection of higher market price for lowland rice (1,412.78 shs/kg) compared to 1,137.78 shs/kg for upland since the difference in yield was not statistically significant between the two rice systems. The farmers attributed the low market for upland rice to the lack of aroma and stickiness when cooked and high percentages of breakages during milling. This is consistent with WARDA (2008) which asserts that most of the upland rice varieties; especially the NERICA varieties have no aroma.

**Table 3: Comparison of Unit cost ratios in lowland and upland rice**

Category (Ushs)	Overall (n = 180)	Lowland rice (n = 90) Mean values	Upland rice (n = 90) Mean values	t-values
Total cost/ha	537,489.45 (16,799.46)	564,968.87 (102,450.16)	510,010.02 (93,864.21)	1.64
Value of output /ha	2,471,398.07 (77,009.45)	2,921,30 (102,450.20)	2,021,497 (93,864.21)	6.48***
Unit Cost Ratio/ha	0.25 (0.001)	0.21 (0.02)	0.30 (0.02)	-4.48***

Source: Computed from field survey data

Note: independent sample T-tests with equal variances assumed

\*\*\*, \*\*, \* Significant at 1%, 5% and 10% respectively Figures in brackets are standard errors

### Determinants of competitiveness in lowland and upland rice production systems

Table 4 presents a summary of determinants of competitiveness of the two systems under study. The relationship between Unit Cost Ratio (the measure of competitiveness) and the factors influencing competitiveness was derived using ordinary least squares (OLS). The R<sup>2</sup> for sampled farms is 54% and 47%, respectively for lowland and upland rice systems implying that the variables included in the model do explain the observed variances in competitiveness of rice production systems. The results in lowland rice system indicate that the estimated coefficients associated with education level, farm size, extension contact bear negative sign and statistically significant implying reduction unit cost ratio thereby improving competitiveness. Similarly, in upland rice system the same variables affect unit cost ratio in the same direction. Membership to organizations was significant and has negative influence on low land rice competitiveness. The results also show that distance to the market irrespective of the system has a direct relationship with the unit cost ratio meaning decreasing competitiveness in both upland and lowland rice systems.

The role of education in improving competitiveness is widely known because it enhances the acquisition and utilization of information on improved technology by the farmers as well as their innovativeness (Dey *et al.*, 2000; Nwaru, 2004; Effiong, 2005). It also enables farmers to understand the socioeconomic conditions governing their farming activities and to learn how to collect, retrieve, analyse and assimilate information.

Competitiveness can be greatly influenced by the number of times a farmer accessed extension service because that is when the farmer learn of the new practices. The study showed that extension education had a negative and statistically significant (P < 0.01) influence on the Unit Cost Ratio in both lowland and upland rice production systems implying that increasing the frequency of extension contact significantly reduces Unit Cost Ratio per hectare, thus improving

competitiveness. This result is also consistent with findings obtained by Rahman (2002) among rice farmers in Bangladesh.

The estimated coefficients for farm size had the expected negative signs and statistically significant in both rice production systems implying that increasing farm size significantly improves competitiveness in both systems. These findings provide evidence of returns to size on rice farms. Large farms are claimed to achieve economies of scale and benefit from preferential access to output and input markets (Hall and Laveene, 1978). As expected, distance to markets was found to reduce competitiveness in both lowland and upland rice production systems. Far-off markets imply high transaction costs for the output (Atieno *et al.*, 2008).

The coefficient of household size variable is negatively related to competitiveness, suggesting that a large family size reduces competitiveness in lowland rice. This result is rather surprising since large family size is expected to provide farmers with variety of labour (children, men and women) which leads to division of labour and specialization (Nwaru, 2004). A possible explanation could be that due that this could be a reflection of Government policy on Universal primary education requiring all the children of school going age to be at school instead of working in the rice fields.

**Table 4: Determinants of competitiveness in lowland and upland rice production systems**  
**Dependent variable – Unit Cost Ratio per hectare**

Explanatory variables	Lowland			Upland		
	Coefficient	t- value	p-values	Coefficient	t- value	p-values
Constant	-0.298	-0.330	0.742	-0.427	-0.440	0.664
Education level	-0.236	-1.690*	0.094	-0.262	-2.760***	0.007
Household size	0.147	2.410*	0.018	-0.045	-0.520	0.605
Experience	-0.226	-1.240	0.218	-0.493	-2.910***	0.005
Rice farm size	-0.361	-3.410***	0.001	-0.197	-2.240**	0.028
Degree of specialization	-0.044	-0.500	0.618	-0.093	-1.020	0.313
Credit usage	-0.054	-0.730	0.468	-0.103	-1.090	0.278
Extension contact	-0.228	-2.270**	0.026	-0.257	-1.840*	0.069
Membership to farmers group	-0.244	-2.830***	0.006	-0.111	-1.080	0.285
Distance to market	0.124	2.710***	0.008	0.224	4.290***	0.000
Form of rice sold (1=milled)	-0.141	-0.410	0.680	0.530	1.310	0.193
R <sup>2</sup>	0.546			0.473		
Adj R <sup>2</sup>	0.489			0.406		
F – value	9.510		0.000	7.090		0.000

## Conclusion and recommendations

The study has revealed that both lowland and upland rice productions systems are competitive implying that they are using the resource at their disposal efficiently. However, lowland system is slightly more competitive than upland system. Thus there still exists room to improve the competitiveness of the two production systems by addressing some important policy variables. These will enable the farmers get better returns from rice and produce rice sufficient enough to feed the growing population.

The main variable that the government should pay particular attention to is market access as measured by distance to the market. Since this variable was found to increase unit cost, it is important that market access is strengthened through improved infrastructure such as roads and information dissemination regarding the crop and prices. This helps to cut down on transaction costs. As for education, a farm size and extension service delivered the Government is encouraged to increase their levels because of their positive influence on competitiveness in the both systems. In terms of education, provision of informal and formal education is required to enable farmers assimilate the information disseminated by the extension staff researchers. As for farm size, positive influence implies that in order to achieve cost reduction, there will be a need to expand farm size. However, this would mean encroaching on already degraded wet lands. The feasible alternative is to encourage farmers to adopt productivity enhancing technologies that are already available at Namulonge Agricultural and Animal Production Research Institute.

Extension contact also had positive relationship with competitiveness in both production systems, implying that policies that increase the frequency of farmers contact with extension system would have a significant impact on competitiveness. Such policies could include: training of more extension staff, and motivating them so that they work harder.

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## **Social security priority and needs: The case of Sierra Leone**

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*The extension of social security coverage to all sections of the population remains and continues to be a critical issue confronting the Sierra Leone government and its agent, the National Social Security and Insurance Trust [NASSIT]. It involves different categories of the population, among which: farmers, agricultural workers and fishermen; self-employed in small commercial settings, craftsmen; salaried workers in small enterprises; workers in rural or remote geographical areas; workers in the informal sector; migrant workers; and unemployed persons. This paper reports on the participatory risk assessment method and findings of a social security needs priority survey, which will assist us in identifying the nature of benefits that are most responsive to their needs. We believe that measures taken to provide coverage against employment injuries as well as the provision of medical care through a national health insurance scheme would go a long way in the fight against poverty.*

### **Introduction**

The National Social Security and Investment Trust (NASSIT) conducted this Pilot Social Security Priority and Needs Survey in two weeks in June/July 2007. The survey is the first sampling survey of its kind to be carried out in Sierra Leone. Its aim is to provide some insight into the risk priority and social security needs of informal sector workers, who are largely without social security. We hope that the information contained in this report will serve firstly, as a preliminary guide for extension of social security to the uncovered population and secondly, as a framework for a more in-depth and wider study of the uncovered population in Sierra Leone.

As with many countries around the world, social security is becoming a major focus in Sierra Leone. The legislative and institutional measures that have been in place to cater for the population through collective security and mutual help are proving to be less relevant in light of recent developments and the current state of affairs in the country. In 2001, following national consultations and policy discussions, the national pensions system that addressed the contingencies of old age, invalidity and death went through reforms that led to the creation of the National Social Security and Insurance Trust (NASSIT). Ten years on, and by virtue of its level of funding and financial status, NASSIT is presently at the centre of the country's national social security apparatus.

Social Security, however, involves broader aspects and includes more contingencies than are being addressed by NASSIT. Essentially, social security refers to (i) the protection which society provides for its members through a series of public measures, against the economic and social distress that would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death; (ii) the provision of medical care; and (iii) the provision of subsidies for families with children. While (i) above applies mainly to workers, (hence their prominence under the ILO's Conventions); (ii) and (iii) apply universally to all members of the society (Bonilla Gacia and Gruat 2003).

The general objectives for any social security system are: (i) to provide compensation for loss of income; (ii) to prevent illness or provide health; and (iii) to create living conditions that will satisfy the needs of the population and the special needs of the elderly, children and the disabled.

The next section seeks to discuss the issue of social security in Sierra Leone as the basis for a more comprehensive study to determine the most critical social security needs of workers in the informal sector. It is expected that the findings of this study will engender recommendations of appropriate policy directions for the design of an effective social security system for this group of workers. Section 3 discusses the NASSIT scheme in providing retirement and other contingency needs of workers. Section 4 explains the participatory risk assessment method, while section 5 summarises the results on workers, risk priorities and needs. Section 6 summarises and concludes the study.

### **Social Security in Sierra Leone**

Sierra Leone, like any other society, has a number of measures in place to address the above key social security issues. The adequacy of the benefits provided or the accessibility of such benefits to those who need them is another matter. This section presents a brief overview of social security as it applies in the Sierra Leonean context.

Social security as it exists in Sierra Leone can be classified into the following broad categories: Old Age (Retirement); invalidity; survivors; employment Injury; sickness; medical Care; maternity; family subsidies. These categories are covered by various legislative and institutional arrangements.

*Old Age, Invalidity and Survivors:* The National Social Security and Insurance Trust (NASSIT) Act of 2001 made provisions for old age, invalidity and survivors' benefits (*in the form of pensions or grants*) to workers and their dependants. It established a Trust with a mandate to administer the scheme, based on social insurance principles.

*Employment Injury:* The Workmen's Compensation Act N0.2 of 1971 makes provision for providing compensation and other benefits for workers injured during the course of performing job-related tasks. The key provisions of the Act include the calculation of benefits that should be provided to workers injured during active course of duty.

*Maternity:* The provision of Maternity benefits applies within the context of Collective Bargaining Schemes negotiated by organised labour unions and worker's associations. Many formal sector institutions provide cash benefits (*mostly by continuing payment of salaries*) during periods of maternity.

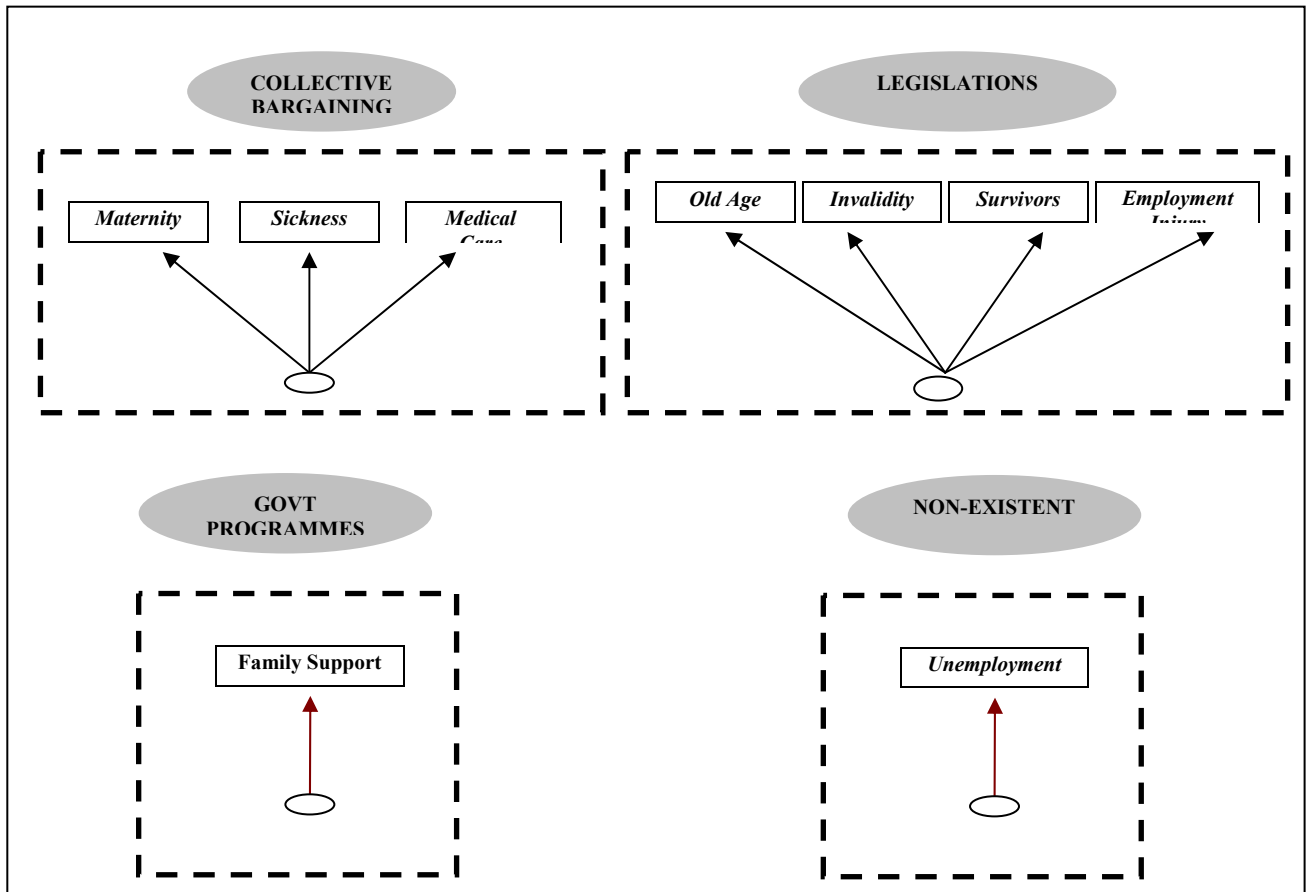
*Sickness:* Sickness is covered, like Maternity, mainly for formal sector workers who earn salaries. Workers who work for daily or hourly wages mostly do not receive pay for periods they do not work and are not usually covered for sickness.

*Medical Care:* Medical care is provided for workers in the formal sector in the context of conditions of service. The level of coverage for medical conditions or amount of treatment varies across sectors (public/private); across levels in the administrative echelon; and across institutions. This benefit also applies only to salaried workers. Such medical schemes are administered by either making periodic finite cash payments to workers to provide for medical contingencies or through an employee insurance scheme that is financed by the employer.

*Family Subsidies:* These are provided mainly through Government programmes that aim either at reducing the economic and financial burden on families for certain activities or at enhancing living conditions. Current national family subsidy programmes include (i) examination-fee subsidies for pupils taking external standardised examinations; (ii) subsidisation of essential drugs in public medical facilities; and (iii) cash benefits paid to the extremely poor elderly members of society through a Social Safety Net Scheme.

Figure1 below illustrates the Social Security system in Sierra Leone.

Figure 1: The Sierra Leone Social Security Dashboard



The efficacy of the social security system in Sierra Leone, in terms of the level of coverage of contingency needs and the adequacy of benefits it provided is not discussed here.

### The NASSIT Scheme

NASSIT is a social insurance scheme in which members contribute periodically and receive benefit when a contingency occurs. The objective of the Trust is to provide retirement and other benefits to meet the contingency needs of workers and their dependants. In order to achieve this, the Trust undertakes the following: Registers all employers and members and issues them with individual Employment Registration and Social Security Numbers respectively and collects contribution of members and compiles relevant data relating to the contributions. It maintains and updates personal and financial records on members; processes and pays benefit to members as they fall due, and manages and invests the social security funds.

The Trust has been very active in fulfilling these objectives since 2002, in terms of its mobilization of contributions and investment projects. Both of these support the Sierra Leone Poverty Reduction Strategy (PRS) by fulfilling a critical aspect of its mandate, which is the provision of the means for the people of Sierra Leone, particularly the underprivileged, to meet their social needs.

The risks of old age, invalidity and death (*to survivors*) are covered under the NASSIT Act No. 5 of 2001, which created NASSIT to administer a social insurance scheme for working members of the population. Available national population statistics and information from the NASSIT membership database, shows



that even though the NASSIT scheme potentially covers all workers in the country, it effectively offers protection to less than 10% of the working population.

The 2004 population census carried out in Sierra Leone puts the country's population at 4,930,532, a breakdown of which is provided in Table 1 below.

Table 1: Population Age Distribution

Age Group	0 – 14	15 – 49	50 – 64	65+	Total
No. of People	2,057,046	2,356,990	362,091	154,405	4,930,532
% of Total Pop	41.7	47.8	7.3	3.2	100

Source: *Statistics Sierra Leone 2004*<sup>4</sup>

The employment status of the economically active population indicates that approximately 70.1 percent are either self-employed or employees in the informal sector. The formally employed, with identifiable employers constitute only about 6 percent of the economically active population. Table 2 below shows the total work force based on employment classification by the *Sierra Leone Integrated Household Survey (SLIHS)*.

Table 2: Employment Classification of Work Force

Employment Classification	No. of Persons	% of Workforce
Formal Sector Employees	195,868	5.98
Formal Sector Self-Employed	802,407	24.50
Informal Sector Self-Employed	273,159	8.34
Informal Sector Employees	2,003,085	61.17
Total	3,274,519	100.00

Source: *Statistics Sierra Leone (SLIHS, 2004)*<sup>5</sup>

By design, the NASSIT scheme potentially covers the self-employed workers in both the formal and informal sectors. Effective coverage of these groups has been negligible, only 534 self-employed out of 126,749 are members of the scheme. Informal sector employees, enumerated to stand at about 2,003,085 are almost unidentifiable to be effectively targeted by the scheme, since they are mostly domestic workers and employees of self-employed artisans, traders or in the agricultural sector.

Table 3: Distribution of the Employed Population

Employment Classification	No. of Persons	% of Total
Public sector	72 222	3.80
Private sector	1,828 361	96.20
Private formal sector	98 830	5.20
Private informal sector	1,729 531	91.00
Total	1,900 583	100.00

Source: Régie des rentes du Québec (2006)<sup>6</sup>

<sup>4</sup> Sierra Leone Population and Housing Census 2004 (*SSL*)

<sup>5</sup> Employment and time spent on activities in Sierra Leone (*GoSL, ILO*)

<sup>6</sup> Final Report: Actuarial Valuation of NASSIT as at 31<sup>st</sup> December 2004

Table 4: The Covered Population by Employer Category and Region, 2004–2006.

Employer Category	No. of Employees			No. of New Employees		
	2004	2005	2006	2004	2005	2006
Formal public	64,990	68,069	72,767	1,659	3,079	4,698
Formal private	37,877	46,434	53,982	5,906	8,557	7,548
West	33,925	38,921	44,164	1,957	4,996	5,243
North	715	2,817	4,078	715	2,102	1,261
South	1,665	2,451	3,243	1,663	786	792
East	1,572	2,245	2,497	1,571	673	252
Total	102,867	114,503	126,749	7,565	11,636	12,246

Source: NASSIT Annual Report, 2006

Table 4 shows the distribution of the covered population in 2004-2006. A comparison of Table 3 and Table 4 shows that in 2004, there was little room for expansion of coverage from 64,990 to 72,222, in the formal public sector. By 2006, cover for the public sector employed had expanded to 72,767. A significant proportion of the increase in coverage overall has come from the private formal sector where there is still a large potential for expansion. Regionally, the western region has experienced the highest increase in coverage followed by the North. In terms of the rate of increase, the North has the highest percentage increase, while the West has the lowest. An even larger potential for expansion/extension of coverage is obviously in the informal sector.

It is essential, therefore, to develop a means of targeting the uncovered workers especially in the informal sector and identify their priority needs, based on their perception of the risks they face in life; determine their willingness to participate in a social security scheme and the nature of benefits they deem appropriate. The outcome of this exercise will provide signals to those areas that require attention in formulating a scheme that will engender greater coverage to the current uncovered members of the working population, and to address risks that are relevant to their need.

This paper is based on a NASSIT commissioned study of social security priority and needs of workers in the informal sector of the Sierra Leone economy, presently uncovered by the old age, invalidity and death social security schemes it administers. This study sought to utilise the perception of the uncovered members of the working informal sector population to determine what risks they face and hence, the nature of benefits they require. The information obtained was used to guide the strategy to expand effective coverage to self-employed workers in the informal sector. The specific objectives of the study were threefold:

1. To identify the priority requirements of the uncovered population in the informal sector in terms of protection from the risks they perceive;
2. To solicit and provide relevant information that will guide in the expansion of the present NASSIT scheme to capture and retain potential members that are in the informal sector; and
3. On the basis of the survey results, recommend feasible options for the design of a suitable scheme for this group of workers.

### **The Study Approach and Methodology**

The study targets workers (*employers and employees*) in the informal sector of the economy. The informal sector by definition consists of small-scale self-employed activities (with or without hired workers), typically at low levels of organisation and technology with the primary purpose of generating

employment and incomes. The activities are usually conducted without proper recognition from authorities, and escape the attention of the administrative machinery responsible for enforcing laws and regulations (ILO, 2000). The difficulty, which arises from effectively targeting this category of the economy, is one of the reasons that the NASSIT Act No. 5 of 2001 makes it voluntary for self-employed persons to join the scheme.

The object of this study, therefore, is the population in the informal sector (*self-employed and employees*) that is not covered by the present NASSIT scheme. It does not explicitly target self-employed persons in the formal sector, since it presumes that this category of workers have some form of coverage from private arrangements.

The study comprises field and deskwork. The fieldwork involves consultations with selected groups of the population to solicit their views on priority contingency needs to be addressed by the national social security system. The consultations utilised tested consultative methodologies for national policy formulations, such as the Strategic Action and Planning Process (SAPP), Participatory Poverty Assessment (PPA), and the use of structured questionnaires to gather information.

The information collected was analysed, using SPSS, within the national macroeconomic, social and institutional contexts to report on the following: What are the main risks that various categories of workers in the informal sector face? What kind of benefits will best suit their needs at the onset of any of the contingencies identified above? What is their willingness to contribute to the funding of these benefits?

Beyond the foregoing, the study makes policy prescriptions on feasible and suitable design options for a scheme that could be attractive to this group of workers involved.

#### *The Participatory risk assessment method*

The study adopted a tested Participatory Poverty Assessment (PPA) methodology used in national policy formulation, especially in the case of the preparation of Sierra Leone's Poverty Reduction Strategy Paper (PRSP). The Participatory Risk Assessment (PRA) was conducted to collect information on risk and social protection benefit. The exercise was done in a participatory manner with five socio economic groups across the country in NASSIT's operational areas. Responses from participants in each socio-economic group provided information about their perceived risks and associated social protection benefits and needs.

Two local consultants conducted a two-day refresher training for fifteen facilitators. A pre-testing of the adopted methodology followed the refresher. Aberdeen community in the western end of Freetown, a fishing community, was selected for the conduct of the pre-testing exercise. The Field level exercise started afterwards. This was conducted simultaneously starting with the districts Bo and Kenema, then Makeni and Kono and finally in the Western Rural district of Waterloo and Tombo.

The general objective of this study method was to collect qualitative data from targeted groups on their perceived risks and social protection benefits/needs. More specifically, the study seeks to:

- create an understanding of risk from the knowledge and experiences of the targeted groups
- enable groups to highlight the different contingencies that could lead to income loss and financial distress
- provide information on related social protection benefit/needs of the targeted groups
- identify research gaps for further research into social security issues especially in the informal sector.

### *The PRA Methodology*

The PRA exercise was conducted in five districts where NASSIT is operational. Makeni and Kono for the Northern Region, Kenema for the Eastern Region, Bo for the Southern Region and Waterloo and Tombo for the Western Rural district. The selection of socio economic groups was based on the predominant socio economic groups in each location, which are considered by national and global social security organizations as categories of the informal sector).

The Participatory Risk Assessment (PRA) is a research methodology that enables targeted groups to analyze their situation, focusing on the realities, needs and priorities within the context of the situation in which they find themselves. The methodology uses a combination of various methods that include visual (mapping, diagrams) and verbal (open-ended interviews, focus group discussions (FGDs)). The methodology recognizes that development should be people driven and result oriented, by enabling people to do things for themselves, and to realise that it is better to do so along a capacity they already possess and have control over.

Fifteen facilitators received a two-day refresher training in participatory risk assessment methodology. Three facilitators were assigned to each of the five districts mentioned for the field level exercise. The field level exercise lasted for 10 days.

The introductory exercise helped participants to appreciate that there are different viewpoints on an issue in a society or group, and all of the views must be appreciated, collectively analyzed in working towards achieving a common perspective for the good of all.

The symbol  $\Sigma$  was used to explain the above rationale to participants<sup>7</sup>. The rationale is to help participants to understand that groups have multiple challenges facing them at any given point in time, and that even the same challenge could be viewed from varying perspectives depending on people's background, experience and positions. In order for consensus to be arrived at, groups should be encouraged to hold discussions and dialogue on issues so that collective decisions representing the interest of all players within a group will be made.

### *Risk Identification and Profiling*

This exercise paved the way for participants to think about one or two risks in their life that would cause a serious financial situation. The responses from the participants were then recorded on a piece of paper visible enough for them to see. Different symbols were used to represent the various categories of risk as identified by the participants. A pair-wise comparison exercise was conducted to get the characteristics of each risk. This process led to the identification of the various categories of risks as perceived by the targeted groups. The exercise also came out with a representation of the number of participants who are of the opinion that each risk category is a problem to their businesses or livelihood.

### *Risk Prioritization through Preference Scoring.*

The preference scoring exercise is a way of arriving at an analyzed need. It helps to reduce the bias, which may come as a result of: a) people projecting their need with an idea of getting helped, b) what they emotionally feel is their need without analyzing it and c) taking the existing worldview of a risk without looking at how the risk affects them specifically. The scoring exercise allows each risk to be laid on the horizontal line so that each risk becomes a column and the characteristics on the vertical line so

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<sup>7</sup> Participants were arranged in a circle and large  $\Sigma$  is placed in the center of the circle. Participants were then asked what letter or symbol they were seeing. Some of the answer given were; 3, W, M, E; depending on where they were sitting in relation to the symbol  $\Sigma$ .

that each characteristic becomes a row. Participants are then asked to compare how strong or weak a characteristic is in a particular risk by using a score out of ten. Each characteristic and risk intersects in a unique box.

The second part of the preference scoring exercise is the distribution. Participants were encouraged to select their priority risk by determining the current status of the identified risks, the change they want for themselves using their own resources and the change they want for their grandchildren, in the future, also using their own resources. The total number of identified risks is multiplied by 3 to get a hypothetical amount. This amount is then distributed across the risks to understand the current and long-term priorities. This process helps the group to move from felt risks to analyzed risks.

#### *Social Security Needs/Benefits.*

This exercise allows participants to understand the security needs for each risk or contingency. It helps participants to understand and appreciate the difficulties and patterns of their vulnerability associated with their daily lives and hence can better proffer solutions to these vulnerabilities. It also helps planners to plan once they understand the level of risk and vulnerability that is involved and the type of benefits that are appropriate for different categories of the targeted group of workers.

#### **Summary of Finding on Risk Priority and Social Protection Needs**

The Participatory Risk Assessment methodology used in the Pilot Social Security Priority Needs Survey used a combination of various participatory methods (i.e. mapping, diagrams, open-ended interviews and focus group discussions) to solicit information from targeted socio-economic groups in the informal sector. Membership of each socio-economic group was carefully chosen to include male and female over all age groups who were 15 years or older. Four groups of participants were alternately consulted in each district. Participants were asked about what they perceived as risks in their lives that would affect their livelihood or economic activities. The responses from participants across the socio-economic groups in the districts surveyed came up with the following “Sickness”, “Work Injury”, “Old Age”, “Death of Income Earner” “High Dependency”, “Loss of Income”, “Loss of Job”, “Disaster” and “Loss of Goods”.

#### *Analysis of Risks as Perceived by Participants*

A total of 1218 responses on the perception of the different categories of risks and their effect on the economic livelihood of participants were recorded. As shown in Table 5, “Sickness” had the highest number of responses (281) or 23.07% of the total responses, followed by “Work Injury”, “Old Age”, “Death of Income Earner” and “Job Loss”. “Loss of Income”, “High Dependency”, “Disaster” and “Loss of Goods” all accounted for less than 13% of the total number of responses across the five socio-economic groups in the five districts

Table 5: Analysis of Risks as Perceived by Participants

Risks	Responses	%
Sickness	281	23.07%
Work Injury	236	19.38%
Old Age	202	16.58%
Death of Income Earner	182	14.98%
Job Loss	168	13.79%
Loss of Income	76	6.24%
High Dependency	37	3.04%
Disaster	22	1.81%
Loss of Goods	14	1.15%
Total	1218	100

*Risks Priorities of Socio-Economic Groups in the Informal Sector*

Table 6 provides a summary of the top 3 risks prioritized among socio-economic groups in the five districts. From the table, it can be discerned that “Sickness” is the most serious risk identified and prioritized, i.e. it maintains the 1<sup>st</sup> rank among the other risks in the 5 socio-economic groups surveyed. “Work Injury” and “Old Age” were also highly prioritized across the socio-economic groups. “Death of Income Earner”, “Job Loss” and “Loss of Income” were also distinctively identified by certain socio-economic groups. “High Dependency”, “Loss of Good” and “Disaster” were identified by participants during the preference scoring exercise; however, they do not appear among the top 3 risks as shown in the table below.

Table 6: Risks Priorities among Socio-Economic Groups in the Informal Sector

Socio-Economic Groups	1 <sup>st</sup> Risk	2 <sup>nd</sup> Risks	3 <sup>rd</sup> Risks
Transport	Sickness (35.7%)	Work Injury (21.4%)	Old Age (14.3%)
Service Providers	Sickness (29.4%)	Old Age (23.5%)	Death of Income Earner (17.7%)
Traders	Sickness (33.3%)	Work Injury (26.7%)	Old Age (20.0%)
Mining and Quarrying	Sickness (30.0%)	Work Injury (20.0%)	Death Of Income Earner (10.0%)
Non-Farming Agriculture	Sickness (33.3%)	Job Loss (16.7%)	Income Loss (16.7%)

*Social Protection Needs among Socio-Economic Groups*

Table 7 below shows the social protection needs among the five socio-economic groups in the informal sector covered by the study. “Sickness” was rated as the most important social protection need among all five socio-economic groups facilitated. The second most important social protection need among the “Service Providers” was “Work Injury” (14.3%) followed by “Death of Income Earner” (12.2%). For the “Traders”, the second most important social protection need was “Loss of Goods” (22.7%) followed by “Old Age” (11.4%). “Disaster” (18.2%) was the second most important social protection need among the “Miners” followed by “Work Injury” (15.9%). “Job Loss” (17.7%) and “Old Age” (12.9%) were the second most and third most important social protection needs among the “Transport Worker”. For the “Non-Farming Agriculture” “Old Age” (21.9%) and “Work Injury” (15.6%) were the most important social protection needs after “Sickness”.

Table 7: Social Protection Needs among Socio-Economic Groups

Service Providers		Wholesale and Retail		Mining & Quarrying		Transport		Non-Farming Agriculture	
	%		%		%		%		%
Sickness	28.6	Sickness	29.5	Sickness	22.7	Sickness	25.8	Sickness	31.3
Work Injury	14.3	Loss of Goods	22.7	Disaster	18.2	Job Loss	17.7	Old Age	21.9
Death income Earner	12.2	Old Age	11.4	Work Injury	15.9	Old Age	12.9	Work Injury	15.6
Child Allow.	10.2	Death Income Earner	9.1	Death Income Earner	13.6	Work Injury	12.9	Death Income Earner	9.4
Old Age	10.2	Disaster	9.1	Old Age	11.4	Death Income Earner	9.7	Child Allow.	6.3
Disaster	8.2	Job Loss	4.5	Child allow.	9.1	Disaster	8.1	Disaster	4.7
Job Loss	6.1	Work Injury	4.5	Loss of Income	4.5	Loss of Income	6.5	Loss of Goods	4.7
Loss of Goods	6.1	Loss of Income	4.5	Job Loss	2.3	High Dep.	3.2	Job Loss	3.1
Loss of Income	4.1	Child Allow.	4.5	Loss of Goods	2.3	Loss of Goods	3.2	Loss of Income	3.1
Total	100	Total	100	Total	100	Total	100	Total	100

### Summary and Conclusions

The results of the PRA methodology were presented in this paper. It starts with a brief explanation of the process involved in risk identification and profiling, risk prioritisation and the social security needs of informal sector workers, the target group of this study. Extra emphasis was placed on methodology.

In the analysis of risks as perceived by participants, the results show that “Sickness”, “Work Injury” and “Old Age” are the three most important threats identified by FGD participants in the five districts surveyed. These three risks account for almost 60% of responses.

The top three risks prioritised by socio-economic groups show that “Sickness” is the most serious risk identified (ranked 1<sup>st</sup>) by all of them. “Work Injury” and “Old Age” were also ranked highly (either 2<sup>nd</sup> or 3<sup>rd</sup>) by most economic activities.

The social protection needs of the five socio-economic groups in the informal sector reports that “Sickness” is again the most important for all of them. The importance of other protection needs vary significantly by the economic activities in which informal sector workers are engaged. For example; in mining and quarrying, “Disaster” and “Work Injury” are very important, while for wholesale and retail, “Loss of Goods” and “Old Age” are more important.

The results of the PRA method have provided some insights into the perceptions, priorities and needs of informal sector workers on social security, but certain characteristics of the group of participants have not been obtained or analysed. These characteristics will be analysed and discussed in a separate study.

The results of this study points us in the direction to which government policy on employment, welfare, education and health care provision should be directed – the informal sector, where the majority (up to 91%) of the population resides, under conditions of abject poverty, poor health and illiteracy. The onus of their survival rests squarely in the hands of the government, as the majority of these citizens lack the ability to pay for their own social protection.<sup>8</sup>

<sup>8</sup> A further study investigate s the willingness of these workers to contribute periodically towards their social protection.

Furthermore, improvements in these policy areas would work towards the achievement of the goals and targets of the millennium development goals (MDGs) especially those relating to poverty, hunger and health care (see Cleeve, 2010<sup>a</sup>; 2010<sup>b</sup>).

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## **“The hopeful continent”: Economic development and the performance of Sub-Saharan Africa**

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*Previously thought of as a ‘hopeless’ case by some, Sub-Saharan Africa (SSA) has experienced economic growth, technological progress, and communications leading to revisions about its prowess. For some, the rise of GDP, capacitation and ease of doing business, increase in exports, foreign direct investment (FDI), and societal indicators of well-being are moving SSA into the ‘hopeful’ stage and this is a sure sign of movement in the right direction. Some believe that the role of the state is crucial to the development of African countries. Others question both the free market view and the ‘developmentalist’ view for not taking sufficient account of historical experience. To what extent do these perspectives explain the economic development and performance of SSA?*

### **Introduction**

In an article entitled “Hopeless Africa”, *The Economist* (2000) painted a picture of a decaying and moribund continent. Many countries, such as Sierra Leone, Mozambique, Madagascar, Ethiopia and Zimbabwe were described as having “denigrated into a shambles”, “deluged by floods, famine”, and “succumbed to government-sponsored thuggery”, while “poverty and pestilence continue [d] unabated” (*The Economist*, 11/5/00). Just over a decade later, there seems to have been a change of heart at *The Economist*. Africa is now classified as “the hopeful continent” (ibid, 3/12/11). Even though countries such as Zimbabwe are still in the “hopeless” category, most others are not, and some are top 10 world growth performers (Ghana, Ethiopia and Eritrea) and reformers (Zambia). Indeed: “Over the past decade six of the world’s ten fastest-growing countries were African. In eight of the past ten years, Africa has grown faster than East Asia, including Japan. Even allowing for the knock-on effect of the northern hemisphere’s slowdown, the IMF expects Africa to grow by 6% this year [2011] and 6% in 2012, about the same as Asia” (ibid, 3/12/11; also see Table 1; Miriri, 2012:1; Moyo, 2012). This compares favourably with India’s economic growth, particularly after estimates were revised from 9 to 6-7% for this fiscal year (Lamont, 2012:1).

Despite ‘breakneck economic growth’ in countries such as Angola and Equatorial Guinea, as well as improvements in ‘economic development’ in for example Rwanda and Ethiopia, *The Economist* also sounds a note of caution. Arguably, ‘oil-sodden kleptocracies’ still stain the continent, Zimbabwe is still “a scar on the conscience of the rest of southern Africa”, and even South Africa, once regarded as a model for Africa, is experiencing widening inequalities and suffering from the scourge of corruption.

Notwithstanding this, *The Economist* argues that “some fundamental numbers are moving in the right direction. Africa has now a fast-growing middle-class: according to the Standard Bank, around 60m Africans have an income of \$3,000 a year, and 100m will in 2015. The rate of foreign investment has soared around tenfold in the past decade” (*The Economist*, 3/12/11). In fact, the African Development Bank (ADB) estimates the middle classes to be 355 million, that is, 34% of Africa’s population in 2010 – a rise from 26% (111 million) in 1980, 27% (151 million) in 1990 and 27% (196 million) in 2000, figures which are expected to reach 42% (1.1 billion) in 2060 (Ncube, *et al.*, 2011:13; 20).

Our specific concern in this paper is to examine the extent to which the national bourgeoisie is central to the developmental process. Different perspectives give us insights into this debate. For example, *The Economist* cites revenues from natural resources in 2000 - 2008, demography and the development of

Table 1: GDP of 20 Largest SSA Economies (in billions of US\$, current prices).

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>West Africa</b>										
Côte d'Ivoire	10.6	11.5	13.8	15.5	16.4	17.4	19.8	23.5	22.5	23.6
Ghana	5.3	6.2	7.6	8.9	10.7	12.7	15.0	16.7	15.5	17.9
Nigeria	44.1	59.1	67.7	87.8	112.2	145.4	165.9	207.1	173.4	214.0
Senegal	4.9	5.4	6.9	8.0	8.7	9.4	11.3	13.3	12.7	13.5
<b>Central Africa</b>										
Cameroon	9.5	10.9	13.6	15.8	16.6	18.0	20.4	23.7	22.2	23.1
D R Congo	5.2	5.5	5.7	6.6	7.2	8.8	10.0	11.6	11.1	12.6
Rep of Congo	2.8	3.0	3.5	4.7	6.1	7.7	8.4	11.8	9.5	12.7
Eq Guinea	1.7	2.1	3.0	5.2	8.2	9.6	12.6	18.4	12.2	15.6
Gabon	4.7	5.0	6.1	7.2	8.7	9.5	11.6	14.5	11.0	13.4
<b>East &amp; Horn of Africa</b>										
Ethiopia	7.9	7.4	8.0	10.1	12.3	15.2	19.6	26.7	32.3	30.6
Kenya	13.1	13.2	15.0	16.1	18.7	22.5	27.2	30.3	32.7	34.2
Sudan	13.4	15.0	17.8	21.7	27.4	36.4	46.5	58.0	54.7	65.7
Tanzania	10.4	10.8	11.7	12.8	14.2	14.4	16.7	20.6	22.3	24.5
Uganda	5.8	6.2	6.6	7.9	9.2	10.0	11.9	14.4	15.7	17.7
<b>Southern Africa</b>										
Angola	8.9	11.4	14.0	19.8	30.6	45.2	59.3	84.9	68.8	85.5
Botswana	6.1	6.1	8.1	10.1	10.4	11.3	12.4	13.5	11.6	12.9
Mozambique	4.1	4.2	4.7	5.7	6.6	7.2	8.1	9.9	9.8	10.2
Namibia	3.6	3.4	4.9	6.6	7.2	8.0	8.8	8.9	9.5	10.5
South Africa	118.6	111.4	168.2	219.4	246.9	261.2	285.9	276.8	287.2	329.5
Zambia	3.6	3.7	4.3	5.4	7.2	10.7	11.5	14.7	13.0	16.1
<b>Sub-Saharan Africa<sup>1</sup></b>	334.7	363.0	444.5	548.4	640.2	742.5	854.4	978.1	1,180.1	1312.0
<b>Africa<sup>1</sup></b>	576.6	590.0	696.2	830.9	970.3	1,121.1	1,296.9	1,566.4	1,492.7	1647.1

**Source:** International Monetary Fund, World Economic Database, September 2011, URL <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx>. Data Accessed 10/03/2011

<sup>1</sup>Source: World Bank national accounts data, and OECD National Accounts data files. Accessed through, World Bank. World Databank, URL <http://databank.worldbank.org/ddp/home.do>. Data Accessed 10/03/2011. Italics indicate IMF staff estimate.

Source: SABER 2011 (Spring, Rolfe and Parent, 2011:86)

of manufacturing and services as being key to 'Africa's rise'. Others, in line with that view, emphasise free markets, business opportunities and the growth of consumer society (Elliot, 2011; Moyo, 2012). In contrast, 'developmentalists' invoke the 'developmental state' as crucial to the rise of the middle class. The national bourgeoisie is seen as central to the development of African countries similarly to the Asian Four Tigers (South Korea, Singapore, Taiwan and Hong Kong) and Japan (Evans, 1995; also see Bodiba, 2008; Chibber, 2011; Ukaegbu, 2011). Indeed President Jacob Zuma of South Africa commented in his

speech at the World Economic Forum in Davos, Switzerland, that “The state prepares the environment for economic growth and provides support to the private sector by providing enablers and removing obstacles” (Zuma, as cited in the *Mail & Guardian*, 26/1/12). For its part, the political economy approach contends that history has often shown that the national bourgeoisie has not always been committed to the ‘developmentalist’ project, let alone concern itself with the resulting growing inequalities. It is in this light that we reach conclusions on the appropriate framework for examining changes which are taking place.

### **Neo-liberalism**

*The Economist* (2011:2-3) charts the ‘right direction’ along the path of economic growth that is unencumbered by government restrictions and interference and it is argued further that “Africa’s progress is a reminder of the transformative promise of growth” (2011:4; also see Moyo, 2012). Elliot also argues that “free market/capitalist economic models need to evolve to provide economic opportunity for all. Current models still too often allow a few to control markets and opportunities. However, redistribution of, or state-dominated, wealth is not the answer, creation of new wealth is” (Elliot, 2011:1). Stuart Hall sums up this neo-liberal project in the following way: “Neoliberalism is grounded in the ‘free, possessive individual’, with the state cast as “tyrannical and oppressive - - - State-led ‘social engineering’ must never prevail over corporate and private interests. It must not intervene in the ‘natural’ mechanisms of the free market, or take as its objective the amelioration of free-market capitalism’s propensity to create inequality - - - State intervention must never compromise the right of private capital to grow business, improve share value, pay dividends and reward its agents with enormous salaries, benefits and bonuses” (Hall, 2011:2).

To the extent that there is a trade-off between work (income) and leisure, free market advocates see rising incomes of the middle classes *vis a vis* their changing lifestyles and increasing leisure pursuits as indicative of a healthy, prosperous and vibrant economy. For sure, spending power is arguably reflective of this trend. The most striking case is Nigeria, where a five-fold rise in GDP from 2000 to 2011 was accompanied by a surge in spending by the middle class: “A survey by Renaissance Capital found that nearly half of the country’s middle class (defined as an average monthly income of \$500-\$600) were planning to buy fridges, freezers and other white goods, ‘suggesting a consumer boom is under way’ ” (Smith and Lamble, 2011:3; also see Moyo, 2012). Estimates also suggest that spending will rise from approximately \$860bn (£550bn) in 2008 to \$1.4tn (£900bn) in 2020 (ibid: 4).

Technology and innovation in countries such as South Africa, Nigeria, Kenya and Rwanda have, so the argument goes, contributed to inter-connectedness, ‘transforming ideas into tangible, profitable ventures and improvement of livelihoods’ (Elliot, 2011:1-3; Moyo, 2012). Indeed, surveys show that the fastest uptake of mobile phones is in Africa, with 600 million mobile-phone users, more than America or Europe and only second to Asia (*The Economist*, 2011:3; Smith and Lamble, 2011:3). Given the relatively poor landline infrastructure, it is not surprising that coverage of mobile-internet services as described below in the findings of the *Sub-Saharan Business Environment Report, 2011* (Spring, Rolfe, and Parent 2011) is more extensive in Africa than even in India, while facebook users (27% of Internet users) compare favourably with Asia (18%) (Ncube *et al.*, 2011: 27; Smith and Lamble, 2011:3-4).

It is also contended that: “Population trends could enhance these promising developments. A bulge of better-educated young people of working age is entering the job market and birth rates are beginning to decline. As the proportion of working-age people to dependents rises, growth should get a boost. Asia enjoyed such a ‘demographic dividend’, which began there decades ago and is now tailing off. In Africa it is just starting” (*The Economist*, 3/12/11; also see Moyo, 2012). Smith and Lamble also add that “The African middle classes are more likely to have smaller families, own their homes and have salaried jobs or small businesses. They tend to opt for private education and health services and send their children to overseas universities. Some are turning into conspicuous consumers, running up debts on credit cards like

their counterparts in the west” (Smith and Lamble, 2011:4). To keep the neo-liberal project alive, catching up with developed countries also assumed ideas about ‘social capability’, that is, that catching up will only take place if developing countries have certain social characteristics – education system, governance etc (Abramovitz, 1986; Elliot, 2011; Moyo, 2012). Citing vibrant market capitalism in Africa as “dragging millions out of poverty and into shops”, Moyo (2012) concludes that it is a “poignant irony that the isolated continent will succeed by following the rules of the market that the rest of the world forgot”. What is likely to threaten the smooth running of this neo-liberal project is, not only the new-found political activism of the educated and affluent middle classes - the Arab Spring and other hotspots in Africa being cases in point – but, crucially, the “excluded social forces, whose consent has not been won, whose interests have not been taken into account, [who invariably] form the basis of counter-movements, resistance, alternative strategies and visions” (Hall, 2011:6). Interestingly enough, 250 years earlier the same conflicts and contradictions were exercising Adam Smith’s imagination: “But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments, of the most free as well as of the most despotical”.

### **Developmentalism**

In his account of developments in Kenya, Miriri notes that, just as the ‘rich and new middle classes’ were acquiring ‘tastes for lattes and ice cream’ (Miriri, 2012:1), hundreds of thousands of families were at the same time going hungry, living in crowded conditions and lacking basic services such as sanitation (Miriri, 2012:5), and many young people were unemployed. It is to this disaffected section of society that the developmental state makes its pitch, even as some of the "goodies" such as access to telecommunications (see SABER 2011 data below) make their way to the poor.

According to Evans (1995), a managed market economy involves developmental planning, that is, the state ‘supporting and guiding’ the market economy. ‘Best practice’ technology can be borrowed from elsewhere and adapted to the local conditions. Moreover, just like in Taiwan, there needs to be a domestic saving ethos, one which is also further encouraged by incentives such as interest rates. Unlike the predatory state such as President Sese Seko Mobutu’s reign (1965-1997) in Zaire (Democratic Republic of Congo), whose primary aim is to extract resources without giving anything back and whose characteristics include authoritarianism, nepotism and cronyism, the developmental state co-operates with all stakeholders such as trade unions and industry to bring about industrial transformation. It takes account of people’s concerns, although it does make the final decisions (relative autonomy). Indeed, an institutional framework must be in place, one that will enable the state to co-ordinate and monitor long-term industrial strategy, consult and involve all interested parties in the formulation of industrial policy and industrial strategy. There must thus be well-developed bureaucratic structures in which selective recruitment is conducted on the basis of merit or formal competence (meritocracy). In addition, informal networks (social ties) will serve to bind individuals to well-defined and coherent corporate goals (also see Bodiba, 2008:35-37; Chibber, undated: 2; 2011:3-7; Ukaegbu, 2011:1-2). Apart from the pursuance of education and industrial training to support industrial policy that is aimed at, amongst other things, job creation, it is also proposed that subsidies ("the carrot") will cajole the national bourgeoisie to back the government’s long-term industrial policy, while the very threat of their (subsidies) withdrawal and other punitive measures ("the stick") will serve as the necessary discipline to keep the industrialists in line (see Chibber, 2011:4-5; also see Netshitenzhe, 2011).

Although South Africa, for example, has not been able to control banks to the same extent that the Four Tigers were able to divert credit/finance according to ‘the plan’, its ‘New Growth Path’ framework (2010) has been presented as a way of emulating the latter: “This would be done through investment in infrastructure, education and skills development. The government was also trying to create more opportunities for people on a ‘mass scale’ in infrastructural development, agriculture, mining and beneficiation, manufacturing, the green economy and tourism” (*Mail & Guardian*, 26/1/12; also see

Naidoo *et al.*, 2012; Vecchiatto, 2012; Zuma, 2012). Speaking at the World Economic Forum in Davos, President Zuma added that ‘incentives and enablers to boost employment-creating economic activities’ were already in place, while public works programmes were designed to provide short-term employment” (ibid). Besides, the provision of social grants in South Africa is also designed to address Miriri’s (2012) grave warning (for Kenya) about the contradiction between economic growth and growing inequalities: “Zuma said the social assistance programme created a ‘caring society’ ” (*Mail & Guardian*, 26/1/12).

### **The Political Economy Critique**

In a wide-ranging critique of developmentalism, Chibber argues that a number of myths about the impact of the developmental state stem from the failure to critically examine the historical experiences of those countries that adopted this model (Chibber, undated; 2011). While there were some successes in economic growth, these were often accompanied by a burgeoning fiscal drag in support of an inefficient and complacent private sector.

According to Chibber, the developmental state was premised on three misconceptions or ‘stylized facts’. First, protection of (strategic) industries and subsidisation were not only seen as a way of emulating (catching up with) Japan, Germany, and Russia, but the infant industry approach was also designed to establish the domestic capitalist class and insulate industry from international competition from the USA, Japan, and other developed countries. Second, it was contended that all stakeholders (‘political elites, state managers, the domestic capitalist class and, to a lesser extent, workers) were committed to a commonly-agreed purpose, to a common mission. Finally, the state was often cast as having the upper hand in its dealings with business (relative autonomy of the state), that is, that rapid industrialisation was synonymous with ‘state-led development’ (Chibber, undated:2-4; also see Netshitenzhe, 2011).

What was not envisaged, as Hall (2011) observed, was the potential for conflict, not only between the state and the ‘excluded social forces’, but also between the state and sections of capital (also see Ndhlovu, 2011b). Arguably, without a developed institutional framework or institutional capacity, this ‘common project’ (dirigiste dogma) is likely to flounder.

Moreover, once import substituting industrialisation (ISI) had helped to block international competition, monopolies were no longer under any obligation to become more efficient, nor did they feel pressured to go along with the state’s developmental project. Their priorities were different from those of the state and they increasingly “regarded the disciplinary component of ISI as an unacceptable encumbrance” (Chibber, 2011:11; also see Chibber, undated:7). In fact: “Business groups in these countries accordingly waged a campaign in which they called for, and supported, central coordination of economic policy while at the same time fighting strenuously against measures which would give planners any real power over investment decisions” (Chibber, undated: 7; also see Chiber, 2011:12).

Chibber suggests two alternative solutions: (a) that, given a well-developed institutional framework and a determined political leadership to enforce the discipline on miscreants, some Korean-type development may be a possibility or (b), gradually allowing “imports to enter into selective lines - - - The external pressure could be expected to incline firms to accept an alliance with the state and its developmental agencies” (Chibber, 2011:20). In the first case, authoritarianism (as in South Korea and Taiwan) is not a necessary condition for success since there are examples where relative success was achieved within a democratic context. The success of the second case may be curtailed by the relatively small size of the market in developing countries (Chibber, 2011:20-27). Organised labour, if its leaders are not co-opted by political elites, can also play a pivotal role in the success or otherwise of national development. It is in this light that economic performance of Sub-Saharan Africa (SSA) can be examined.

### **Using SABER 2011 data and findings to show economic performance**

The SABER 2011 report (Spring, Rolfe, and Parent, 2011) has data to confirm SSA's enhanced performance using its research on updated country findings and business analysis focusing on the twenty countries with the largest GDPs (Table 1) grouped into four sub-regions - West Africa, Central Africa, East Africa and the Horn, and Southern Africa. SABER's assessments, that are based on extensive research using print and on-line sources, as well as databases, provide some data to evaluate the theoretical ideas of this paper. Certain questions and debates can be proposed for consideration. How reflective is GDP of a country's wealthy equity? How does FDI show confidence in a country's stability? How does health spending reflect wealth distribution? How do gender indices reflect gender parity? How does ease of doing business affect resource management, entrepreneurship, job creation? What effects do financial markets have on the economy and GDP? What helps national economies in the creation of more "haves" versus "have-nots"? Does state intervention either through managed "best practices" or the private "free-market" with or without developmentalist goals in mind structure all outputs that are related to performance outcomes? While governments set conditions for infrastructural, extraction industries, and public utility regulations, the population believes it is contributing to development with its consumption of such things as mobile technologies and labour.

Some examples from the SABER 2011 data (Spring, Rolfe and Parent, 2011) illustrate government development planning and regulatory methods, separately or in tandem with local and international (foreign direct investment - FDI) and private sector deals. The topics considered here include: oil extraction and processing (government and FDI); the ease of doing business (government regulation of the private sector); financial markets (private sector with financial transparency and accountability, but affecting national GDP); telecommunications (a mix of government regulation and private initiative with widespread access to all levels of the population); and societal equity in terms of gender indices (government and private sector affirmative action initiatives, plus the affects of wider access to health care and education for girls and women). Comments on South Africa's responses end the section.

Oil is one of the major contributors to economic growth and GDP. Its development is often spurred on by FDI for exploration, more recently in joint ventures with government entities and national host companies. Refining processes for petroleum products in Africa depends on the country and the origin of the FDI. China does not (yet) have such plants in Africa, while European and North American companies do in some African countries. SABER 2011 considered political stability, governance issues, and corruption in relation to FDI for resources including oil and minerals, as well as agricultural resources such as farmland and timber, and suggests that African countries with resources and higher corruption scores allow their resources to be extracted and exported at cheaper rates. Oil, in particular produces fast and high growth rates in GDP.

The oil producing countries (Angola, Equatorial Guinea, and Sudan) had the highest growth while Ethiopia had the highest growth for a non-oil country. Single commodity-based countries had high exports and high FDI: Nigeria (99% oil), DRC (96% minerals), Republic of Congo (99% minerals), Equatorial Guinea (97% oil), Gabon (94% oil), Angola (95% oil), and Cameroon (82% oil). Oil production from Ghana is around 10% currently, but the potential is generating large amounts of FDI and government regulatory legislation. Uganda also seems to have potential, and similarly-related FDI for exploratory endeavours has commenced. While Angola, Sudan, and Congo are China's largest suppliers of oil in SSA, China purchases most of this oil on the open market and, following western companies that have processing installations, the Chinese oil company Sinopec has established joint extraction agreements with the Angolan state oil company Sonangol (Zhao, 2011a; 2011b).

### **Ease of Doing Business**

SSA has huge variation in the ease of doing business, with the Central African countries being at the very low end of rankings (DRC, Republic of Congo, Equatorial Guinea, Gabon), while West Africa's Ghana, East African countries (Ethiopia, Kenya and Uganda) being in the mid-range, and Southern African countries (South Africa, Botswana, Namibia) being at the top. In 2010, 3 of the world's 10 top countries as overall growth performers were African (Ghana, Ethiopia, Eritrea). Besides, several had reformed all or part of the business process as measured by the World Bank and the IMF. Zambia was in the 5 highest reformers worldwide.

Zambia's 'Doing Business' ranking changed from 84 in 2010 to 76 in 2011 (due to a 36-point jump to a rank of 57 in starting a business, as well as smaller improvements in registering property), making Zambia one of the top business reformers in the world. In Mozambique, a simplified licensing system in 2011 and the elimination of minimum capital bank deposits improved its Doing Business rank by 31 points for starting a business.

Doing Business indicators (World Bank IMF websites) show the ranks for Africa's 20 largest GDP countries in comparison with 183 countries of the world and with other SSA countries. For the world's ease of doing business, South Africa is at 32 (34) followed by Botswana at 50 (52) in the 2010 (2011) rankings. Considering only the 46 SSA countries, South Africa, Botswana and Ghana are number 2, 3 and 5 respectively. Considering the sub-indices, Kenya and Namibia are 32 and 37 (of 183) in dealing with construction permits, Ghana and Botswana are 31 and 42 (of 183) in registering property, South Africa and Kenya are 2 and 6 in the world in getting credit. South Africa ranks high at 10 in protecting investors with Ghana, Botswana and Mozambique at 47. Botswana ranks at 18 in paying taxes with South Africa, Zambia, and Ethiopia behind at 23, 36, and 41 respectively. In Senegal, Ethiopia, Mozambique, and Zambia it takes 8, 9, 13 and 18 days respectively to start a business while to register property in Sudan, Mozambique, Namibia, and South Africa it takes 9, 16, 23, and 24 days respectively.

### **Financial Markets**

Does the presence of stock markets act as a barometer of a nation's economic prowess? Spring (2009) and McDade and Spring (2005) respond to this question in the affirmative, contending that standards of financial transparency and accountability are part of the requirement to start with. Over and above that, they function in today's world on the worldwide web, and can be followed for performance and in their relations to GDP, business acumen, and access to the national population (as well as for the international financial community) for investments. Seventeen of SABER's twenty countries have stock exchanges; two regional exchanges are shared by six countries, and 11 countries have their own. Share indices rose in 2010 and into 2011 in almost all exchanges compared to the crisis years of 2008 and 2009.

The World Economic Forum's *Global Competitiveness Report 2010-2011* noted that South Africa's securities exchange regulation is the best in the world. The Johannesburg Stock Exchange (JSE), the oldest exchange in SSA founded in 1887, aims to be a fully integrated financial market and a gateway for foreign and African investors. Foreign investors continued to increase their holdings in JSE equities and grew their net investment in the money market in 2010 and 2011. The East Africa Securities Exchanges Association was constituted in 2008 to strengthen the four East African stock markets in terms of capacity, integrity, and accountability.

### **Telecommunications**

In the contemporary world, communication for business and economic performance, health and education, and societal well-being demonstrate the "hope" of Africa and the involvement of the population in development. Although SSA has very low landline usage, mobile phones are often used for 'texting', banking, as well as internet services, while computer centres are mushrooming. South Africa had the highest number of landlines (4.4 million subscribers about 8.4% in 2010), but this number is small and landlines are decreasing everywhere in SSA, as mobile phones are increasing dramatically.



Botswana has the highest mobiles per 100 inhabitant rate of 118, presumably of subscribers that have multiple mobile phones and sim cards, followed by Gabon (107) and South Africa (101). Subscription is over 60% in Cote d'Ivoire, Ghana, Equatorial Guinea, Kenya, Namibia, Republic of Congo, and Senegal. Ethiopia has the lowest rate (8%), which is surprising as Ethiopia was ranked 5th in the world for GDP growth in 2010. Nigeria has the highest internet usage: 28% of its population has access (44 million subscribers), followed by Kenya (21%) and South Africa (12%), while elsewhere the rate is 10% or less.

Mobile phone companies are growing by leaps and bounds. Expansion throughout Africa is rapid, a combination of local and government-owned companies, competitors from India, France, the U.S., South Africa, etc. and multinational corporations like IBM. India's Bhart Airtel is partnering with IBM, Tech Mahindra, and Spanco for expansion to 16 African countries (IT News Africa). Brightstart will distribute BlackBerry products to Nigeria, Ghana, Kenya, Cote d'Ivoire, Uganda, Tanzania, and Mozambique. Verizon has formed network alliances with Gateway Business Africa to expand Private IP network capabilities to 14 countries. Telkom South Africa has secured new operating licenses in Nigeria, Zimbabwe, Tanzania, Ghana, Kenya, Uganda, Zambia, Swaziland, and Namibia. Telecom is installing a submarine fiber optic cable connecting countries along Africa's west coast (Africa Research Bulletin). Alcatel-Lucent and Angola Cables, Congo Telecom, MTN, Cabo Verde Telecom, Tata Communications, Telecom Namibia, Telkom SA, and Vodacom are extending the West Africa Cable System to 12 countries. Microsoft released Windows 7 and Office 2010 in Amharic. Google in collaborating with the Ethiopian government introduced Gmail in the Amharic and Tigrigna alphabets.

### **Societal equity**

Gender Indices are high in many African countries, and confound easy analysis of their meaning, since women are often disadvantaged in education, access to capital, family law, etc. Several African countries rank exceptionally high on the Gender Gap Index in perspective of the world's countries (South Africa is in 12<sup>th</sup> place and Mozambique is 25<sup>th</sup>), a variable that relates to GDP. For 'Economic Participation,' Mozambique is 5<sup>th</sup> and Ghana is 15<sup>th</sup> worldwide. Botswana ranks first for gender parity and education attainment, Namibia is 34<sup>th</sup> and South Africa is 43<sup>rd</sup>. In Political Empowerment, South Africa ranks 9<sup>th</sup>, Mozambique is 11<sup>th</sup>, and Angola is 24<sup>th</sup>. Labour force participation is near parity in many countries, but men and women are paid different rates (lowest pay discrepancy is 10% in Mozambique compared to 58% in Nigeria and 66% in Cote d'Ivoire). Women's Participation in Parliament is high (South Africa–45%); Mozambique and Angola–39% each; Tanzania and Uganda–31% each; and Senegal–23%) (also see Ndhlovu, 2011c).

### **South Africa: an economic hub**

The South African economy with its huge extractive sector, and sizable manufacturing and service sectors, dominates the Southern tier of Africa, and some would argue all of SSA. There are 100.5 mobile phone subscribers for each 100 inhabitants, and mobile banking and payment services are well developed. Public expenditure on health is the 3rd highest in SSA. Host to the World Cup in 2010, South Africa as a business hub underwent a government-enacted affirmative action programme called Broad-Based Black Economic Empowerment (B-BBEE) to entice companies to increase ownership, management, and employment to categories of people disadvantaged by apartheid (Ndhlovu, 2011a; 2011c; Ndhlovu and Spring, 2009). In his State of the Nation address, President Zuma outlined amendments to B-BEE; these would not only “criminalise fronting and other forms of empowerment misrepresentation”, but also enforce compliance regarding reservation of 2% of employment in the Public Service for disabled people, bring about a Women Employment and Gender Equality Bill, and outlaw abusive practices of labour brokering, while enacting legislation to protect vulnerable workers (Zuma, 2012).

South Africa's industrial policy has sought to emulate the Four Tigers and, especially China (Antonio, Trigo, and Spring, 2011; Spring 2009), in seeking to boost the contribution of the manufacturing sector to GDP from around 14% to close to the 20% figure 10 years ago. Zuma identified the lynchpin of the New

Growth Path as state-led “infrastructure development, tourism, agriculture, mining, manufacturing and the green economy” (Zuma, 2012). Similar to China’s Special Economic Zones (Ebenstein, 2012), he also argued that, in order to address “the triple challenge of unemployment, poverty and inequality”, the Infrastructure Co-ordination Commission was charged with presiding over “five major geographically-focused programmes, as well as projects focusing on health and basic education infrastructure, information and communication technologies and regional integration” (Zuma, 2012). To ensure social cohesion he suggested providing a one billion rand guarantee fund for “people earning between three thousand five hundred rand and R15,000 - - - to obtain housing finance from an accredited Bank”.

The devil, however, is in the detail. Lessons can be learnt from the South Korean government (1967 – 1979) which sought to overcome opposition (from sections of the bourgeoisie) to its development agenda. In the Korean case, import licences were accorded to producers on condition that export targets in specified markets were met. The introduction of EOI on top of ISI meant that industrialists, unlike those in other countries such as India, had to demonstrate success in the export markets before being granted access to the protected home market (see Chibber, undated:12-14; 1999: 2002; 2011: 16-18; Dornbusch and Park, 1987). The South African government’s room for manoeuvre will also depend on “particular forms of social organisation and governance” (Netshitenzhe, 2011: 7) and the balance of class forces.

## Conclusion

SABER’s data and the analysis of perspectives on the “hopeful” continent at a period of global economic crisis has re-opened debates about whether or not the way forward is via free markets as suggested by *The Economist* or through the emulation of Japan and the Four Tigers and, now China. The political economy approach posits tensions between the state’s management of the economy and the class prerogatives of the capitalists that are predicated on profit making. While neo-liberals may draw comfort from pressures for liberalisation, the resulting inequalities means that the ‘excluded social forces’, together with the educated and affluent middle classes are a threat to such a project. Evidence suggests that the political economy approach presents a strategic examination of the process of change in the “hopeful continent”.

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## Management and Sustainability of External Debt: A Focus on Africa

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*African countries have had the notoriety of being characterized by unsustainable external debt. Despite several announced intents by world development agencies to reverse this trend, there appears to be only minimal progress. This paper points to failure to determine appropriate levels of sustainable external debt and inadequate effective governance infrastructure as important reasons why Africa's external debt problems have persisted. The paper derives African-relevant thresholds for sustainable external debt, and highlights quantifiable improvements African countries can experience if they were to adopt better governance infrastructures and effective management of external shocks.*

### INTRODUCTION

Since the inception of the debt crisis in the early 1980s, African countries' external debt has remained unsustainable, with these countries sadly bearing the attendant welfare reducing effects of unsustainable indebtedness (Cohen, 1993; Fosu, 1999; Iyoha, 1999, Gumisai, 2001; Boyce and Ndikumana, 2001; Ndikumana and Boyce, 2003; Ndikumana, 2004). While grappling with this albatross, most of these countries have severally rescheduled their external debts which, in turn, worsened their external debt problems. In fact, Sub-Saharan African countries started rescheduling their debts as from 1989. In 1989, the total amount of debt rescheduled was US\$13.94 billion by 2000 it had risen to US\$22.63 billion. It declined to US\$1.03 billion in 2007. On average, between 1989 and 2007, the region's total external debt rescheduled was US\$5.14 billion.

External debt sustainability has remained a challenge to many African Countries. This view is substantiated by Yang and Nyberg (2009) who show that long term debt sustainability remains a challenge for post completion point, highly indebted poor countries (HIPC). This persistence of unsustainable indebtedness despite the attainment of this "milestone" is attributable to structural vulnerabilities of these economies, such as a narrow export base, weak institutions and governance, poor domestic resource mobilizations, and inadequate debt management capacity. The pertinent question, which is the primary concern in this study, is why unsustainable external debt and its consequences have remained seemingly intractable among African emerging economies?

The study shows that three main factors are responsible for this persistent undesirable situation. First, it is fundamental to get right what constitutes sustainable debt for a country before any attempt to reverse its debt level to such a threshold can bear the desired result. It does appear that the appropriate thresholds for African countries have not been ascertained (Gumisai, 2001; Easterly, 2005; Caliri, 2006; IMF and World Bank, 2006; Manasse and Roubini, 2009). Second, political will and effective governance infrastructures are vital for both ascertaining sustainable debt thresholds and implementing policies that would move and keep countries at such desirable levels. African countries appear not to be exemplary in this respect (Mwega and Rwegasira, 2003; Kaufmann, Kraay and Mastruzzi, 2008).

This paper, therefore, sets out to derive sustainable external debt thresholds that would be more appropriate for African economies. It identifies from extant empirical and theoretical guides, external shocks that are characteristically linked to external debt accumulation and its attendant difficulties.

The empirical results of this paper provide encouraging signs on some effective ways of eventually aiding African countries to achieve manageable external debt levels. Derived sustainable external debt thresholds are substantially below levels that have hitherto been recommended by world development agencies, such as IMF and the World Bank (particularly via the highly indebted poor countries initiative –

HIPC): that is, debt to GDP ratio of 80% and short-term debt to reserves ratio of 80% are less than corresponding ratios of 250% and 130%, respectively, recommended by the World Bank for HIPCs. Levels of external debt above these thresholds identified and suggested by this current study tend to yield negative economic growth for African countries.

The next, section presents both theoretical and empirical backgrounds around the issue of sustainable external indebtedness; this is followed by the method adopted to empirically estimate, what in this study, is considered more African-relevant external debt thresholds. After this, the next section extends results from the thresholds determination exercise to the effects of policy and governance infrastructures on external debt management. Here some concrete (measurable) gains from adopting better macro-management practices and effective governance infrastructures are computed. Finally, the last section concludes the presentation by recapping both the essence and findings of the study.

## LITERATURE REVIEW

### Thresholds for Sustainable Debt

The theoretical literature suggests that “foreign borrowing has a positive impact on investment and growth up to a certain threshold; beyond this threshold, however, its impact is adverse, giving rise to a “Laffer curve” type relationship between external debt, on the one hand, and investment and per capita income growth on the other” (Claessens, 1990). According to the IMF (2000), there are various indicators for determining a sustainable level of external debt. These indicators are primarily in the form of ratios and they aid policy makers in their external debt management duties. These indicators can be thought of as measures of the country’s “solvency” in that they consider the stock of debt at a certain time in relation to the country’s ability to generate resources to repay the outstanding balance. Examples of such indicators of debt management capacity include the debt to GDP ratio, foreign debt to exports ratio, government debt to current fiscal revenue ratio, share of foreign debt to total debt and short-term debt to total debt.

The IMF (2000) also posits that a second set of indicators focuses on the short-term liquidity requirements of the country with respect to its debt service obligations. These indicators are not only useful early-warning signs of debt service problems, but they also highlight the impact of the inter-temporal trade-offs arising from past borrowing decisions. Examples of liquidity monitoring indicators include the debt service to GDP ratio, external debt service to exports ratio and government debt service to current fiscal revenue ratio. The next set of indicators are more forward looking as they point out how the debt burden will evolve over time, given the current stock of debt and average interest rate. These dynamic ratios show how the debt burden ratios would change in the absence of repayments or new disbursements, indicating the stability of the debt burden. An example of a dynamic debt management ratio is the ratio of the average interest rate on outstanding debt to the growth rate of nominal GDP.

External debt sustainability can also be measured by the current account balance (IMF, 2000). If deficits persist, the country’s external position may eventually become unsustainable as reflected by a rising ratio of external debt to GDP. In other words, financing of continually large current account deficits by the issuance of debts leads to an increasing debt burden. This undermines solvency and leads to external vulnerability from a liquidity perspective, owing to the need to repay large amounts of debt periodically (e.g., from monthly to bi-annually).

Different thresholds for external debt sustainability have so far been computed. The threshold for debt sustainability under the HIPC initiative is, for example, pegged at a debt to export ratio of 150% and a debt to GNI ratio of 250%. In their empirical study, Patillo et al. (2002) compute debt thresholds by assuming that the HIPC initiative will halve countries’ debt levels. They use year 2000’s debt ratios as

their benchmark values, and find that debt negatively affects per capita growth when debt-to-exports ratio is 160-170% and debt-to-GDP ratio is 35-40%.

More recently, Manasse and Roubini (2009) suggest that a fuller set of predictor variables for external debt management include, among others, the total external debt to GDP ratio, short-term debt to reserves ratio, real GDP growth, public external debt to fiscal revenue ratio, external financial requirements (current account balance plus short-term debt to foreign reserves ratio), exchange rate overvaluation, and exchange rate volatility. According to them, a relatively “debt safe” country type is described by a handful of debt management prerequisites: low total external debt (below 49.7% of GDP); low short-term debt (below 130% of reserves); low public external debt (below 214% of fiscal revenue); and an exchange rate that is not excessively appreciated (overvaluation below 48%).

Manasse and Roubini identify three types of debt-related risks, which include solvency (or debt unsustainability), illiquidity and macro-exchange rate risks. The risk of unsustainable external debt is characterized by external debt in excess of 49.7% of GDP, together with monetary or fiscal imbalances, and large external financing needs that signal illiquidity. The liquidity risk is identified by moderate debt levels, in conjunction with short-term debt in excess of 130% of reserves, political uncertainty, and tight international capital markets. Macro-exchange rate risk types arise from the combination of low growth and relatively fixed exchange rates. Each of these risk types differs in their likelihood to produce a debt crisis.

From the foregoing, it is evident that the most commonly used indicators of indebtedness are the debt service ratio, debt to GDP ratio, international reserves to debt ratio, international reserves to debt service ratio, and interest payments to net export earnings. In view of the fact that most African countries are still battling with debt service problems even though they have achieved debt sustainability thresholds envisaged by the HIPC initiative, there is a need to identify thresholds that will lead to better debt management for them. Further, HIPC thresholds of indebtedness are too high given that these countries are as well grappling with both weak macroeconomic and governance infrastructures.

Tellingly, by 2005, Malawi, which was both at the decision point and had received 90% debt relief, had not achieved HIPC’s debt to export ratio of 150%. Additionally, by 2008, Burkina Faso, The Gambia and Liberia had not achieved HIPC’s debt to export ratio of 150%. In fact, Easterly (2002) posits that debt relief does not even bring about a reduction in debt, as governments of poor countries borrow anew until they again become heavily indebted. A related argument is put forth by Ferrarini (2008) who posits that full debt cancellation falls short of providing a long-term solution in the event of a renewed build-up of unsustainable debt levels, as the HIPC initiative has amply demonstrated. In fact, external debts of both the Democratic Republic of Congo and Liberia are above their GDPs even after the two countries reached their HIPC completion points. In addition, almost all HIPCs exhibit trends where indebtedness surpasses GDP.

From the discussions above, African countries are battling with both liquidity and solvency problems. It is therefore paramount that workable thresholds that can be used as benchmarks for effective debt borrowing and management are identified. Among other benefits, this paper contributes to the literature by computing workable debt sustainability thresholds for African countries.

### ***Governance Infrastructures and External Debt Sustainability***

The literature has identified poor governance as a main impediment to the sustainability of external debt in African countries. These countries cannot sustain the above mentioned ratios if issues of adequate governance infrastructures are not addressed. In fact, Manasse, Roubini and Schimmelpfennig (2003) argue that institutional factors affect policy credibility as well as a government’s ability to pursue policies

consistent with a sustainable debt path. Therefore, the next section analyzes the impact of institutional infrastructure (both legal and political) on debt sustainability.

Crucial institutions and governance structures play important roles in debt sustainability. Chauvin and Kraay (2005) show that debt relief, in 62 developing countries during 1989–2003, neither improved the institutional quality nor raised the levels of foreign direct investment (FDI) or economic growth. Easterly (2002) finds that highly indebted poor countries became highly indebted mainly because of poor policies, not because of external shocks or wars. He concludes that lenders did not adhere to prudential rules and that the IMF and the World Bank provided far more financing to HIPCs throughout 1979–97 than to other emerging economies of similar income levels, although the policies in many HIPCs have been worse. This study follows Kaufman, Kraay and Mastruzzi (2008) in defining governance infrastructures as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for institutions that govern economic and social interactions among them. The six dimensions of governance include voice and accountability, political stability and absence of violence, government effectiveness, and rule of law, regulatory quality and control of corruption. Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government as well as freedom of expression, freedom of association and a free media. Political stability and absence of violence captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means. Government effectiveness captures the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies. Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of the society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Finally, control of corruption captures the perceptions of the extent to which public power is exercised for private gain.

Instead of using the six governance indices separately in the analysis, they are grouped into two broad constructs: political and legal. The political variable is computed as the average of voice and accountability, government effectiveness and, political stability and absence of violence whilst the legal variable is computed as the average of the rule of law and regulatory quality. The aim of this section is to identify the role that governance infrastructure plays in external debt management.

## METHODOLOGY

To identify appropriate thresholds for external debt, regression models are estimated, wherein the indebtedness ratios are regressed against different thresholds. The sample is represented by twenty four countries that include Angola, Burkina Faso, Cameroon, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Gabon, The Gambia, Ghana, Kenya, Lesotho, Liberia, Malawi, Mali, Mozambique, Nigeria, Senegal, Sierra Leone, South Africa, Tanzania, Togo, Uganda, Zambia and Zimbabwe. The sample consists of both HIPCs and non-HIPCs.

To determine the impact of the thresholds computed above on the sample countries' wealth, equation (1), which reflects equilibrium in the goods market, is estimated.

$$Y_t = \theta_1 C_t + \theta_2 G_t + \theta_3 X_t - \theta_4 C_t^m - \theta_5 I_t^m, \quad (1)$$

where  $Y_t$  is output;  $C_t$  is consumption;  $G_t$  is government expenditure;  $X_t$  is exports;  $C_t^m$  represents consumption imports; and  $I_t^m$  is imported investments. In this study, output, consumption, government



expenditure, exports and consumption imports are measured by taking the logarithm of Gross Domestic Product, household consumption, government expenditure, exports and imports, respectively. Gross fixed capital formation is used as a proxy to measure imported investments. The assumption here is that these countries import capital for investment purposes.

The ratio of price index of exports to price index of imports captures the terms of trade. Terms of trade measures the effect of volatility in commodity prices. Relative interest rate is computed by the ratio of the world interest rate to the domestic interest rate. The USA lending rate is used as the proxy for world interest rate. The ratio measures the direction of portfolio capital flow into and from the domestic economy; it is expected to relate negatively to output. The intuition here is that an increase in the relative interest rate implies that capital flows out of the domestic economy; thus, GDP falls. In fact, empirical literature provides evidence that capital outflow depresses GDP (Boyce, 1992; Ajayi, 1997; Boyce and Ndikumana, 2001; Ndikumana and Boyce, 2003).

The relative interest rate, terms of trade, lagged inflation (which measures macroeconomic instability) and exchange rate are included as explanatory variables, in addition to household consumption, exports, consumption imports and investment imports. The ratio of debt-to-GDP and debt-to-exports also enter interchangeably as explanatory variables. The dependent variable in this model is the growth rate of GDP.

To gauge the effect of governance infrastructures on debt sustainability, regressions of institutional variables and macroeconomic variables are estimated against debt indicators. External debt to GDP and short-term debt to international reserves ratios are used as the dependent variables. As part of the explanatory variables, institutional variables such as political and legal infrastructures, and macroeconomic variables such as inflation rate volatility, terms of trade, and the relative interest rate which capture both a country's ability to pay and willingness to pay are included in the model.

The vector  $X_{t,c}$  represents ratios of exports earnings to GDP, consumption imports to GDP, imported investments to GDP; exchange rate, terms of trade, relative interest rate and governance (institutional) variables such as political and legal infrastructures. The variable  $Z_{t,c-1}$  represents the lagged inflation rate and the lagged growth rate of GDP. The lagged inflation rate enters as a policy variable and is used to capture macroeconomic instability. The dependent variables (debt to GDP and short-term debt to reserves ratios, respectively) are represented by  $H_{t,c}$ . The equation is thus:

$$H_{t,c} = \beta_0 + \sum_{i=1}^N \beta_i X_{t,c} + \sum_{j=1}^M \alpha_j Z_{j,t-1} + a_{t,c} \quad t = 1, \dots, T. \quad (2)$$

## ESTIMATION AND DATA

Data for indicators of indebtedness cover 1970 – 2008. In computing the thresholds, the study follows Clements, Bhattacharya and Nguyen (2003) by running regressions of debt indicators against various thresholds. Thresholds used for this benchmarking, range from indebtedness ratio of 0 to >200%. Each threshold level is coded 1 while others are coded 0, repeatedly. Data sources are World Bank's Global Development Fund and World Development Indicators. The thresholds serve as independent variables. Both debt to GDP ratio and the debt to exports ratio capture solvency whilst short-term debt to international reserves ratio captures liquidity. These indebtedness indicators serve variously as dependent variables. The model is estimated using the fixed effects method. The advantage of a fixed effects model is that it provides consistent estimates in the presence of country-specific effects that are correlated with the explanatory variables in the model.

In analysing the impact of external debt thresholds on the wealth of countries, a panel data of the 24 African countries is used for estimating this model. The panel is unbalanced and hence the fixed effects method is used to estimate the coefficients of the regression. In fact, Judson and Owen (1999) argue that

the fixed effects model is a common choice for macroeconomists, and it is generally more appropriate than a random effects model for two reasons. First, if the individual effect represents omitted variables, it is likely that these country-specific characteristics are correlated with the other regressors. Second, it is also likely that a typical macro panel will contain most countries of interest and, thus, will not likely be a random sample from a much larger universe of countries. For these reasons, only the fixed effects model results are reported. Wooldridge (2002) supports Judson and Owen (1999) and argues that the test statistics based on the unbalanced fixed effects analysis are consistent and asymptotically normal.

The data for estimating the model is divided into two threshold based halves: the portion before the threshold (of 80% debt to GDP) and the portion after the threshold. External debt to GDP is used to identify how different thresholds affect the growth rate of GDP. Results of this estimation are presented in Table 2.

Data on governance is downloaded from the World Bank's World Governance Indicators. The scores lie between 2.5 and -2.5 with higher scores indicating better outcomes (for details on computation of the indices see Kaufmann *et al.*, 2008). Data for governance indices covers 1996-2009.

## RESULTS AND DISCUSSION

The results for the regression of different indicators of indebtedness against different thresholds for Africa are presented in Table 1.

Table 1: Threshold Levels for External Debt Indicators

Thresholds (Percent)	Log (ETD/GDP)	Log (EDT/XGS)	Log (SETD/RES)
Intercept	0.196 (4.83)***	-0.467 (-9.13)***	0.373 (1.16)
<20	-0.313 (-4.58)***	-0.476 (-7.49)***	-1.616 (-4.88)***
>20 - 40	-0.195 (-3.83)***	(dropped) <sup>a</sup>	-0.885 (-2.65)***
>40 - 60	-0.136 (-2.68)**	0.220 (3.58)***	-0.677 (-2.05)**
>60 - 80	-0.090 (-1.80)*	0.371 (6.08)***	-0.603 (-1.82)*
>80 - 100	-0.046 (-0.96)	0.403 (6.67)***	-0.413 (-1.32)
>100 - 120	-0.036 (-0.73)	0.535 (7.67)***	-0.362 (-1.08)
>120 - 150	0.237 (4.48)***	0.611 (10.05)***	-0.260 (-0.77)
>150 - 200	0.638 (9.85)***	0.719 (12.71)***	-0.168 (-0.51)
>200	0.196 (4.83)***	1.022 (19.49)***	0.540 (1.69)*
Observations	882	416	374
Overall R-Square	0.8434	0.8947	0.754
F (H0: all coefficients = 0)	13.52***	14.60***	2.87***

The table contains fixed effects estimates of different threshold levels. The column headings are logarithms of external debt to GDP ratio (ETD/GDP), external debt to exports ratio (ETD/XGS) and, short term external debt to international reserves (SETD/RES). The asterisk \*\*\*, \*\* and \* indicate significance levels of 1%, 5% and 10% respectively. The t-stats are in parentheses.

<sup>a</sup>These thresholds did not have data and were therefore dropped from the regression.

The results show that the debt to GDP ratio falls if either a country's GDP rises faster than debt or if external debt falls while GDP remains unchanged. External debt to GDP level of 60-80% is sustainable for Africa. What this result implies is that when African countries contract debt, they should ensure that the debt does not exceed 80% of GDP. Using debt to exports ratio, the sustainable debt level for Africa is 40-60% of export earnings. Given that exports are used to repay the debt, African countries should not exceed a debt to exports ratio of 60%. Overall, this debt threshold is far much below HIPC initiative's recommended debt to exports ratio of 150% and Patillo et al.'s (2002) threshold of 160-170% debt to exports. On liquidity, short-term debt to reserve ratio should not exceed 80% for Africa. This ratio is below that suggested by Manasse and Roubini (2009) – 130% of short-term debt to reserves.

In estimating the model for the impact of external debt thresholds on the wealth of countries, government expenditure is dropped because of its high correlation with imported investments. Results confirm that high levels of external debt negatively and significantly affect GDP while low levels of external debt increase GDP. Specifically, when debt-to-GDP ratio increases by 1%, growth rate in GDP significantly falls by 0.19% at high debt levels (i.e., >80% debt to GDP). This result suggests that a high level of external debt retards the economy. At low debt levels (i.e., <80% debt to GDP), an increase in the debt-to-GDP ratio insignificantly increases GDP by 0.04%. At this low debt level, exports, imported investments, lagged inflation and a depreciation of the exchange rate increases growth rate of GDP whilst consumption imports reduce GDP. Table 2 presents results.

Table 2. Effect of Threshold-Based External Debt on GDP for African Countries (Dependent Variable: Growth Rate of GDP)

Variables	ETD/GDP<80%	ETD/GDP>80%
Intercept	5.626 (11.85)***	9.275 (52.09)***
Consumption	0.024 (0.45)	0.148 (3.84)***
Exports	0.561 (4.64)***	0.192 (3.59)***
Consumption Imports	-0.404 (-2.66)***	-0.320 (-4.39)***
Imported Investments	0.281 (3.46)***	0.052 (1.42)
Terms of Trade	-0.024 (0.75)	-0.045 (-6.25)***
Relative Interest Rate	-0.034 (-0.79)	-0.186 (-7.78)***
Exchange Rate	0.217 (10.84)***	0.033 (4.14)***
Lagged Inflation	0.001 (4.99)***	0.0001 (0.49)
Debt to GDP Ratio	0.042 (0.75)	-0.191 (-15.09)***

Observations	359	281
F(H0: $u_i = 0$ )	83.84***	209.07***

The asterisk \*\*\*, \*\* and \* indicate significance levels of 1%, 5% and 10%, respectively. The Z-stats are in parentheses. The variable ETD/GDP<80% represents the debt-to-GDP ratio that is below 80% whilst ETD/GDP>80% represents the debt-GDP ratio that is above 80%.

The results show that at high debt levels, household consumption, exports, and a depreciation of the exchange rate increases GDP whilst consumption imports, relative interest rate and the terms of trade depress GDP. Relative interest rate negatively affects GDP because foreign interest rate is higher than the domestic interest rate and consequently capital flows out of the country. Capital outflow has a detrimental effect on GDP. Terms of trade have an interesting effect, in the sense that they negatively affect GDP at high levels of debt. This can be explained by the fact that these countries mainly export primary commodities; so when the terms of trade improve, they suffer from the “Dutch disease” and hence GDP falls.

Table 3 reports results of the regressions for debt sustainability indicators of solvency and liquidity, respectively, against policy and governance variables. There is a strong correlation between the legal and political variables; thus, the two variables are first entered separately in different models. Column (1) reports results of the model which includes the legal variable; column (2) reports results of the model which includes the political variable; and column (3) reports results of the model containing all variables. The model is estimated using the fixed effects method. The results are presented in Table 3.

Table 3. Fixed Effects Estimation of Indicators of Solvency and Liquidity, with a Focus on Governance Infrastructures

Dependent Variable	ETD/GDP ratio			SETD/RES ratio		
	1	2	3	1	2	3
Intercept	18.464 (24.03)***	18.870 (24.22)***	19.068 (23.59)***	18.864 (10.53)***	18.785 (10.24)***	18.937 (9.96)***
Lag Inflation	0.054 (2.15)**	0.049 (2.02)**	0.040 (1.54)	-0.007 (-0.12)	-0.002 (-0.04)	-0.009 (-0.15)
Exports	-0.699 (-2.25)**	-0.688 (-2.23)**	-0.705 (-2.29)**	-3.229 (-4.36)***	-3.220 (-4.35)***	-3.229 (-4.35)***
Consumption Imports	0.638 (2.67)***	0.641 (2.71)***	0.639 (2.70)***	1.350 (2.33)**	1.355 (2.34)**	1.350 (2.33)**
Lag GDP growth	0.002 (0.48)	0.001 (0.22)	0.001 (0.33)	0.003 (0.30)	0.003 (0.25)	0.003 (0.29)
Log Investment	-0.724 (-7.71)***	-0.755 (-8.01)***	-0.759 (-8.04)***	-0.437 (-1.97)**	-0.439 (-1.95)***	-0.442 (-1.95)***
Log Consumption	-1.128 (-9.63)***	-1.133 (-9.90)***	-1.154 (-9.89)***	-1.651 (-6.00)***	-1.638 (-6.03)***	-1.654 (-5.97)***
Relative Interest Rate	-0.357 (-2.73)***	-0.379 (-2.92)***	-0.371 (-2.85)***	0.365 (1.18)	0.357 (1.16)	0.363 (1.17)
Terms of Trade	-0.309 (-4.44)***	-0.313 (-4.54)***	-0.312 (-4.52)***	0.533 (3.28)***	0.532 (3.28)***	0.532 (3.27)***
Exchange Rate	-0.087 (-2.33)**	-0.084 (-2.27)**	-0.082 (-2.21)**	-0.017 (-0.20)	-0.019 (-0.22)	-0.017 (-0.19)

Legal	0.048 (0.57)	-0.099 (-0.93)	-0.061 (-0.31)	-0.078 (-0.13)
Political	0.163 (2.12)**	0.219 (2.25)**	-0.017 (-0.10)	0.026 (0.12)
Observations	276	276	276	271
F(H0: $u_i = 0$ )	35.83***	36.81***	36.64***	13.41***
			13.03***	12.74***

The column heading ETD/GDP represents the ratio of debt stock to GDP (the solvency proxy); SETD/RES is the logarithm of short-term external debt to reserves ratio (the liquidity proxy). Asterisks \*\*\*, \*\* and \* indicate significance levels of 1%, 5% and 10%, respectively. The Z-statistics are in parentheses.

Given that most of the signs and significance of variables do not change after separating the legal and political variable, results of column (3) are discussed. Most of the estimated parameters have the expected signs. The results show that a rise in export earnings, imported investments and household consumptions significantly improve both solvency and liquidity whilst consumption imports worsen solvency and liquidity. Using the solvency indicator, a 1% increase in exports reduces debt to GDP ratio by about 0.71%. Likewise, a 1% increase in imported investments and household consumptions lead to a fall in debt to GDP ratio by about 0.76% and 1.15%, respectively. Surprisingly, an improvement in the political environment increases debt to GDP ratio by 0.22%. Using the liquidity indicator, a 1% increase in exports leads to about 3.23% decrease in short-term debt to international reserves ratio whilst imported investments and household consumptions reduces short-term debt to reserve ratio by 0.44% and 1.65%, respectively.

Conversely, consumption imports worsen both the solvency and the liquidity levels. Specifically, a 1% increase in consumption imports increases debt as a percentage of GDP by about 0.64%. The relative interest rate and the exchange rate significantly improve solvency and insignificantly affect liquidity. On the other hand, terms of trade significantly improve solvency but significantly worsen liquidity. Macroeconomic instability (computed as inflation rate volatility) worsens solvency but insignificantly improves liquidity.

## CONCLUSIONS AND IMPLICATIONS

This paper derives sustainable external debt thresholds that are argued to be appropriate for African economies. The empirical results of the paper provide encouraging guides on possible effective ways of eventually aiding African countries to operate at sustainable levels of external debt.

Derived sustainable external debt thresholds are substantially below levels that have hitherto been recommended by world development agencies such as IMF and the World Bank (particularly via the HIPC): that is, computed and recommended debt-to-GDP ratio of 80% and short-term debt to reserves ratio of 80%, respectively, are less than corresponding HIPC-recommended ratios of 250% and 130%. Levels of external indebtedness above these thresholds computed in this paper tend to yield negative economic growth for African countries. In other words, African countries in the context of prudential fiscal stewardship should not exceed a debt-to-GDP ratio of 80% and short-term debt to international reserves ratio of 80%. Particularly, beyond the critical debt to GDP ratio of 120%, external becomes explosive. These results imply that beyond this level, African countries must reduce foreign borrowing since such level of debt exceeds countries' wealth and capacity to service their debt without hamstringing other aspects of their wellbeing.

Growing exports and a stable political environment promote both solvency and liquidity for African countries. Conversely, consumption and investment imports worsen liquidity and solvency. Since African

countries must import capital (intermediate) goods for investment purposes, they should reduce import of consumption goods and rather boost imports of investment goods. Investment goods are necessary if countries export finished goods or export goods with value-added instead of exporting just primary goods. In closing, some caveats are appropriate. The model used to derive sustainable external debt thresholds in this study is essentially static. Therefore, policy makers must be cognizant of the dynamic nature of their economies and thus, commit to computing these thresholds periodically as their economies, hopefully, progress. Furthermore, note that though the upper caps of the estimated thresholds have been highlighted, the results are in ranges. This range estimate of relevant thresholds implies that countries in regional groupings are not necessarily homogenous; therefore, each country needs to place itself appropriately within range estimates for their region.

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## **Energy, Natural Resources, and Environment**



## **Developing a viable Renewable Energy Policy: A Pathfinder to Millennium Development Goals and Vision 20:2020**

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*Energy is a crucial element in industrialization and socio-economic development process of any nation. In the year 1999 through the might of the masses governance in Nigeria took a new turn, civilian rule was installed and the quest for development took the centre stage. However, meaningful development could not be achieved due to inadequacy of its driving force; Energy. While the developed economies take proactive measures towards making for energy shortfall and chart a new course for producing energy in the futurity, Nigeria is grappling with inadequate power-supply in the nonce. Development is centred on improvement in quality of life as exemplified by the world leaders at the millennium summit held in New York in the year 2000. The aim of the Millennium summit; the Millennium Development Goals (MDGs), was to set a concise and precise agenda with which every nation of the world irrespective of race would improve the lot of her citizens. This paper suggests a way forward to becoming one of the world's top twenty developed economies by the year 2020 through the enactment of a viable Renewable Energy law in order that the current imbroglio that has shrouded development in Nigeria may be annihilated.*

### **INTRODUCTION**

Energy is fundamental to all human activities. The existing MDGs cannot be achieved without access to energy. Energy is inevitable for poverty alleviation and the production of goods and services. Globally, more than 1.6 billion people live without access to electricity and 2.4 billion people are without modern energy services for cooking and heating. Majority of the world poor live in Sub-Sahara Africa. Nigeria is the most populous country in Sub-Saharan Africa, nearly one quarter of Sub-Sahara Africa's population and is one of the poorest countries in the world despite the huge resources from crude oil export. An estimated 60-70% of the Nigerian population does not have access to electricity. Energy demand in Nigeria is dominated by fuelwood and women and children are the most affected in the energy crisis, CREDC (2007) , Ihua et al (2009). The issues relating to energy have been paramount to survival of any kind of living thing be it animal or plant. Some of these issues emanate from generation, distribution and transmission of energy. Energy is that which retains life. Energy may exist in several forms such as heat energy, mechanical energy (viz. kinetic energy or potential energy) and the electrical energy to mention but a few. According to the law of conservation of energy, the total energy in a system remains constant, though energy may transform into various forms. For instance when two billiard balls collide, energy may result from such a process, perhaps heat energy at the point of collision, Ibidapo-Obe and Ajibola (2011). There is no country, the world over that has not experience shortage in energy supply either as a result of manmade errors or natural disasters such as earthquake, hurricane or severe storm. In most African countries, especially in **Nigeria**, poor supply of energy has being a cultural heritage. High voltage spikes and momentary voltage drops are not uncommon; the phenomenon largely due to poor governance may affect the performance of sensitive equipment both in private and corporate organizations causing critical loss of data or outright damages to such equipment, Ajibola and Suley (2012). According to the Institute

of Electrical Engineers (IEE) standard, energy supply for both domestic and commercial use should be continuous, uninterrupted, with constant frequency and must fall within the load demand in terms of quantity of electricity required in any environment. Adherence to the specification/requirements has become even more relevant in view of the high sensitivity and sophistication of modern technological equipment in use today.

In Nigeria, efforts by the citizenry to make up for the shortfall in energy supply has resulted in purchase of fossil based power generators most popular amongst which is **650W TIGER** branded electric power generator. And this move has constituted a cankerworm which has eaten deep into the finances of the citizen with attendant increase in green house gas production thus contributing to further depletion of the ozone layer. Sourcing for alternative sources of energy could be very crucial to economic growth. The progress made in developing alternative sources of energy over the last few decades has yielded reward in the advanced nations of world where the quota of energy from renewable energy sources has soared. In fact a wide variety of energy generating equipment is now available to allow individuals take advantage of just any renewable sources of energy. One of such equipment is the inverter; an inverter is an electronic device that ensures a continuous supply of electricity to home or office by supplying electrical energy from a reservoir of chemical energy when supply from public utility is inadequate, Ajibola et al (2011b). Renewable sources of energy have proven to be formidable in Nigeria. A very good example is the Kainji dam designed to have a generating capacity of 960 megawatts; although, only 8 of its 12 turbines have been installed, reducing the intended capacity to only 760 Megawatts. The dam generates electricity for large cities in Nigeria and some of the electricity is sold to the neighbouring country of Niger.

The concern of the world leaders that centers on the provision of energy for all its citizenry, borders on providing purposeful leadership to the masses. Major purposes for providing sustainable energy for the hoi polloi have been summarized in the Millennium Development Goals (MDGs) and the policy document of Nigeria Vision 20:2020. However, for Nigeria to achieve the set MDGs and become one of the twenty most industrialized nations in the world by year 2020 the energy requirements for such set goals must be met. To achieve this feat, Nigeria must look in the direction the whole world is looking, the renewable energy options.

## **THE MILLENNIUM DEVELOPMENT GOALS AND VISION 20:2020**

In September 2000, 189 countries met at the United Nations headquarters under the auspices of the millennium summit and agreed on eight goals called the millennium Development Goals {MDGs}. These goals were agreed on basically to promote global development and to breach the gap between the less developed countries and the advanced capitalist nations of the west. The goals include to “eradicate extreme poverty and Hunger, Achieve Universal Primary Education, Promote Gender Equality and Empower women, Reduce Child Mortality, Improve Maternal Health, Combat HIV AIDS, Malaria and other Diseases, Ensure Environmental Sustainability and to Achieve Global Partnership for Development”. These goals have 18 targets and 48 indicators. The UN’s deadline for the attainment of these goals is 2015. African region adopted the New Partnership for Africa’s Development (NEPAD) as the driver of these goals in Africa. To this end, Nigeria defined the MDGs in the context of the seven point agenda as exemplified in National Economic Empowerment and Development Strategies (NEEDS) policy document adopting NEEDS as its medium blueprint for development, Nwosu (2008), NPC (2007), Grieco et al (2009). NEEDS was first introduced in Nigeria in May, 2004 to be the engine of development. The thrust of this piece will be Nigeria’s chances of achieving the Goals by 2015. The main goals of NEEDS are Wealth Creation, Poverty Reduction, employment generation and value re-orientation. In its effort to ensure the attainment of these goals, Nigeria developed programmes based on the eight goals as contained in the NEEDS Document. For instance, in goal one, NAPEP was adopted, in goal two, the UBE Act of 2004 came on board, in goal six, the National Agency for the Control of Aids

{NACA} and the Roll Back Malaria initiative were introduced and so on, Nwosu (2008). It should be clearly stated that the aims and objectives of NEEDS and Nigerian vision 20:2020 are the same; the two concepts differ only in methodology. It is therefore sufficient that the vision 20:2020 replaces NEEDS after years 2015, ALTON (2009). The Nigerian Vision 20:2020 aims at making Nigeria a key player in the World Economy, and the Largest and Strongest African Economy. Nigeria's long-term Goals of Vision 20:2020 are: Poverty Reduction, Wealth Creation, Employment Generation and Value Re-orientation while the medium-term goals of VISION 20:2020 are projected to reform Government and Institutions, growing the Private Sector, and implementing a Social Charter

In this paper, renewable energy is presented in concise detail as a viable pivot for achieving the MDGs in Nigeria. To become one of the 20 most industrialized countries in the world by the year 2020, Nigeria must systematically and practically encourage local production of goods and services; these feats require adequate supply of energy to achieve.

### **Electricity situation in Nigeria**

Nigeria is endowed with sufficient energy resources to meet its present and future development requirements. The country possesses the world's sixth largest reserve of crude oil. It is increasingly an important gas province with proven reserves of nearly 5000 billion cubic meters. Coal and lignite reserves are estimated to be 2.7billion tons, while tar sand reserves represent 31 billion barrels of oil equivalent. Identified hydroelectricity sites have an estimated capacity of about 14,250MW. Nigeria has significant biomass resources to meet both traditional and modern energy uses, including electricity generation. The country is exposed to a high solar radiation level with an annual average of 3.5 – 7.0kWh/m<sup>2</sup>/day. Wind resources in Nigeria are however moderate and efforts are yet to be made to test their commercial competitiveness, ICEED (2006). The current installed capacity of grid electricity stood at about 6500MW, of which about 67 percent is thermal and the balance is hydro-based. Between 1990 and 1999, there was no new power plant built and the same period witnessed substantial government under-funding of the utility for both capital projects and routine maintenance operations. Generating plant availability is low and the demand – supply gap is widening. Poor power supply has forced most industrial concerns to install their own power generators, at high costs to themselves and the Nigerian economy, Ajibola et al (2011a).

## **THE RENEWABLE ENERGY SYSTEMS**

Renewable energy is described as “energy obtained from natural and persistent flows of energy occurring in the immediate environment”, or as energy deriving "... from natural processes that are replenished constantly. In its various forms, energy is derived directly from the sun, or from heat generated deep within the earth, Bergfeld, A.F. (2009). A renewable energy system transforms incoming solar energy and its primary alternate forms (wind and river flow), usually without pollution-causing combustion into readily usable form of energy such as electricity. Some renewable energy forms are: Solar, Wind, Micro/Macro-Hydro, Tidal wave, Fuel Cells, Biomass and Geothermal Energy, Ibidapo-Obe and Ajibola (2011). Basically, renewable energy systems draw resources from inexhaustible sources such as the sun, wind, river, ocean and garbage dump. Renewable energy holds the key to availability of efficient and sustainable energy in the futurity.

Conventional energy resources such as Hydro, Nuclear and fossil fuels namely Coal, Oil and Gas supply bulk of the energy needs in most countries of the world Nigeria inclusive. Although fossil fuels (petroleum oil, natural gas, coal) have a limited stock in nature and will get depleted within a few decades or a few centuries. Fossil age will cover only about 1000 years of human civilization. After around 2050 petroleum products will not be available at economical rates. Coal of good quality may not be available after around 2200; fossil fuel power will therefore become obsolete, Uppal et al (2009). It is renewable energy that will then hold sway. If Nigeria must survival and continue to occupy its current position in the

comity of nations, it must not lag behind in the race to excel in renewable energy production for sustainable growth. Some of the modest progress made in the promotion of renewable energy technologies in Nigeria towards ensuring sustainable development as articulated by Sambo (2009) include: the use of Biomass resources that are available in the country such as fuelwood, agricultural waste and crop residue, sawdust and wood shavings, animal dung/poultry droppings, industrial effluents/municipal solid waste for electricity. Municipal wastes are generated in the high-density urban areas. Table 1 shows the estimated biomass resources in Nigeria. Animal wastes (e.g., cow dung, poultry droppings and abattoir wastes) are also available at specific sites and Biogas digester technology has been domesticated with a number of pilot biogas plants built. Considerable local capability exists for building both floating dome and fixed dome bio-digesters using a variety of bio-resources. Examples include a human waste biogas plant at the Zaria prison, cow dung based biogas plants at the Fodder farm of the National Animal Production Research Institute (NAPRI), Zaria and Mayflower Secondary School Ikenne, Ogun State; an 18m<sup>3</sup> capacity pig waste biogas plant at the piggery farm of the Ojokoro/Ifelodun Cooperative Agricultural Multipurpose Society in Lagos State. A number of indigenous outfits are producing economically viable systems for converting municipal waste to energy. SHP potential sites exist in virtually all parts of Nigeria with an estimated capacity of 3,500 MW. The mean annual average of total solar radiation varies from about 3.5 kWhm<sup>-2</sup>day<sup>-1</sup> in the coastal latitudes to about 7 kWhm<sup>-2</sup>day<sup>-1</sup> along the semi arid areas in the far North. If solar collectors or modules were used to cover 1% of Nigeria's land area of 923,773km<sup>2</sup>, it is possible to generate 1850x103 GWh of solar electricity per year. This is over one hundred times the current grid electricity consumption level in the country. Finally, a 5 kW wind electricity conversion system for village electrification has been installed at Sayyan Gidan Gada, in Sokoto State. Promising attempts are being made in Sokoto Energy Research Centre (SERC) and Abubakar Tafawa Balewa University, Bauchi, to develop capability for the production of wind energy technologies. Although there is a reasonable level of use of the renewable energy in the country, a significantly higher level could be attained.

Table 1: Biomass Resources and the Estimated Quantities in Nigeria.

Resource	Quantity (million tonnes)	Energy Value (‘000 MJ)
Fuelwood	39.1	531.0
Agro-waste	11.244	147.7
Saw Dust	1.8	31.433
Municipal Solid Waste	4.075	-

Source: Sambo, A.S. (2009)

## RENEWABLE ENERGY: THE NIGERIA EXPERIENCE

Energy is the mainstay of Nigeria's economic growth and development. It plays a significant role in the nation's international diplomacy and it serves as a tradable commodity for earning the national income, which is used to support government development programmes. It also serves as an input into the production of goods and services in the nation's industry, transport, agriculture, health and education sectors, as well as an instrument for politics, security and diplomacy, Sambo (2009). In this paper, the cardinal points of the Renewable Energy Policy Guideline (REPG) of the Federal Republic of Nigeria highlighted vis-a-vis the South African white paper on renewable energy policy with the aim of identifying the gray areas of the former that is responsible for its consistent failure, bring such to the fore and suggest the way forward. According to Renewable Energy Policy Guideline documents (ICEED, 2006), increased power generation from conventional sources and grid extensions alone will not achieve electricity access expansion targets rapidly and cost-effectively. Accelerating rural electrification coverage will require an aggressive deployment of multiple supply options and business delivery systems.

Consistent with the provisions of the Electric Power Sector Reform (EPSR) Act, the Federal Government will seek to meet national electricity access targets through the following strategies: Grid-based extension for proximate areas; Independent mini-grids for remote areas with concentrated loads where grid service is not economic or will take many years to come; and Standalone renewable electricity systems for remote areas with scattered small loads. Non-conventional or renewable energy is a key element in the overall strategy of the Federal Government in rapidly expanding access to electricity services in the country. Beyond large hydropower, the current total contribution of renewable energy in Nigeria's electricity industry is about 35MW composed of 30MW small hydropower and 5MW solar PV representing about 0.6% of total nominal electricity generating capacity in the country. However, electricity is required for such basic developmental services as pipe borne water, health care, telecommunications and quality education. The poverty eradication and Universal Basic Education (UBE) programmes require energy for success. The absence of reliable energy supply has not only left the rural populace socially backward but has left their economic potentials untapped. Fortunately, Nigeria is blessed with abundant renewable energy resources such as solar, wind, biomass and small hydropower potentials. The logical solution is increased penetration of renewables into the energy supply mix, Sambo, A.S. (2009). The springboards to future development of renewable energy as contained in the REPG of the Federal Republic of Nigeria are as summarized below:

### **Vision**

*The Federal Government of Nigeria's vision of renewable energy in the power sector is the achievement of accelerated sustainable development through increased share of renewable electric power to the national electricity supply.*

### **Objectives of Policy Guidelines**

The overall objective of the Renewable Energy Policy Guideline is to expand the role of renewable electricity in sustainable development through effective promotional and regulatory instruments. The policy guideline seeks to achieve the following specific objectives: Expand electricity generating capacity to meet national economic and social development goals; Encourage the diversification of sources of electricity supply through renewable energy, and as such improve the energy security of the country; Increase access to electricity services nationwide, especially in rural areas; Stimulate growth in employment generation through an expanded renewable electricity industry; Enhance technological development through increased domestic manufacturing of renewable electricity components; Stimulate competition in the delivery of renewable electricity; Promote rapid expansion of renewable-based electricity market through cost-reducing supply side and demand side incentives; Develop regulatory procedures that are sensitive to the peculiarities of renewable energy based power supply; Create stable and predictable investment climate in renewable electricity market; Provide effective protection of electricity consumers through effective regulation; and Reduce household and outdoor air pollution as well as contribute to the abatement of greenhouse gas emissions, and thus contribute to improved health and overall social development.

### **The Policy Principles and Renewable Energy Target**

A principle refers to a standard of moral or ethical decision-making or the basic way in which something works. It is an important underlying law or assumption required in a system of thought. The REPG does not contain any policy principle that may guide the implementation of the policy. As laudable and as comprehensive as the REPG may seem, it contain no such thing as production target. There is therefore no known parameter with which the progenitors and stakeholders are able to measure the degree of success achievable at any point in time during implementation of the policy.

### **Factors Affecting the Prospects for Renewable Energy Implementation**

The factors that may likely affect the prospect for implementing renewable energy were not explicitly stated in the REPG.

### **Barriers to Renewable Energy in Nigeria**

According to the REPG of the Federal Government of Nigeria, the major barriers to renewable energy implementation are:

- 1) **Policy and regulatory barriers:** The focus of national policy has consistently been on centralized conventional sources of electric power. Several incentives were established to promote investments in conventional power generation. Subsidizing grid power has so far penalized investments in alternative energy solutions. This lack of a level playing field for all energy sources and technologies has constituted a formidable barrier to the growth of alternative electricity services. Until lately, the Power Holding Company of Nigeria (PHCN) was the only entity legally permitted to produce and distribute electricity. Under the 2005 Act, independent power producers are permitted to operate, however, the legal framework for successfully implementing PPA is still evolving. The perception of significant regulatory risks by potential investors and financial institutions compound the challenges faced by potential renewable electricity investors. Moreover, guaranteed access to the grid is an important element of an investment decision to embark on grid-connected power projects. At present, a non-discriminatory open access to the national electricity grid, for renewable power, is not assured.
- 2) **Financial and investment barriers:** Renewable energy projects have high initial costs. This affects the overall cost of energy produced per kWh. Investors will not be favorably disposed to wind, small hydro or power from cogeneration plants if they will not make profit by selling the electricity. Average electricity tariff in Nigeria is put at about N6:75 per KW-h (approximately 5 cents per kWh). Average cost of typical sources of renewable power for mini hydro is 5-10 cents; solar PV: 20-40 cents; biomass power: 5-12cents; wind power: 6-10 cents. Without adequate financial incentives market entry will be difficult.
- 3) **Public awareness:** There is limited public awareness of the potentials of renewable electricity in meeting some of the energy and development challenges facing the country. The inadequacy of awareness creates a market distortion which results in higher risk perception for potential renewable electricity projects. The general perception is that these forms of energy technologies are not mature and only suited for niche markets.
- 4) **Inadequate resource assessment:** The growth of the renewable power industry will depend to a large extent on the availability of a solid resource database. Reliable and up-to-date sources of data will assist investors in making decisions on renewable electricity.
- 5) **Intermittency of resource availability:** An underlying barrier affecting all renewable electricity resources is the intermittency of their availability. The challenge of energy storage and system management presents a major challenge and adds to the complexity and costs of renewable electricity.
- 6) **Standards and quality control:** A major constraint to the development of the renewable energy market in Nigeria is the poorly established standard and quality control of locally manufactured and imported technologies. Creating quality assurance is a precondition for building consumer confidence and in growing the market for renewable energy. Two important dimensions to issues of quality include the perception of potential users, poorly developed regime for standards setting, testing and certification as well as professionalism among operators.

The Policy Guideline establishes a framework to addresses the above barriers. It creates measures that enable market expansion and private sector participation in renewable electricity business. It further facilitates grid-connected and off-grid operations as well as increased role for renewable electricity in rural electrification.

### **RENEWABLE ENERGY: THE SOUTH AFRICA EXPERIENCE**

The South African economy has two faces; one as a development economy and also as a developing economy. Providing affordable, adequate and reliable modern energy supplies to most South Africans

remains a major challenge, even though access to electricity has increased from one-third to two-thirds of the population since 1994. Current methods of producing and using energy have environmental and health effects that increasingly endangered welfare, and the key challenge is to move to cleaner energy supply and more efficient use, while continuing to extend affordable access to modern energy services, in particular for poor rural and urban communities, Winkler (2005). Reducing South Africa's present reliance on coal and oil at the same time as focusing on energy efficiency could see the country use less energy in 2050 than it does now, even as population and the economy grow, Servaas van den Bosch (2012). Below are elements that are key to solving energy problems in accordance with the Republic of South Africa white paper on renewable electricity development.

### **Vision**

According to the government gazette on renewable energy policy;

*The South Africa's government overall vision for the role of renewable energy in its energy economy is an economy in which modern renewable energy increases its share of energy consumed and provides affordable access to energy throughout South Africa, thus contributing to sustainable development and environmental conservation, DME (2004).*

In order to ensure energy security, the government of Republic of South Africa (RSA) engendered a flexible energy trade policy which gives increased opportunities for energy trade, particularly within the Southern African region; Government set to pursue energy security by encouraging diversity of both supply sources and primary energy carriers. The White Paper on Energy Policy's position with respect to renewable energy was based on the integrated resource planning criterion that ensured that an equitable level of national resources is invested in renewable technologies, given their potential and compared to investments in other energy supply options. To this end, the long-term goal of RSA government is to establish a renewable energy industry that is capable of producing modern energy carriers that will offer in future years a sustainable, fully non-subsidized alternative to fossil fuels.

### **The Renewable Energy Target**

To get started on a deliberate path towards this goal, the Government's medium-term (10-year) target is; *10 000 GWh (0.8 Mtoe) renewable energy contribution to final energy consumption by 2013, to be produced mainly from biomass, wind, solar and small-scale hydro. The renewable energy is to be utilized for power generation and non-electric technologies such as solar water heating and bio-fuels contributing approximately 4% (1667 MW) of the projected electricity demand (41539 MW) by 2013, DME (2004).*

The projected contribution of new renewable to the energy economy in RSA is equivalent to replacing two (2x 660 MW) units of Eskom's combined coal fired power stations, thus providing an enduring but effective palliative for carbon emissions from the coal fired power stations of Eskom as bio-fuel especially methane has the capacity to scrub carbon dioxide in the atmosphere. This is in addition to the estimated existing (in 2000) renewable energy contribution of 115,278 GWh/annum (mainly from fuel wood and waste).

### **The Policy Principles**

The key policy principles for renewable energy of RSA government according to the policy document are as stated below:

- 1) **Full cost accounting:** Pricing policies will be based on an assessment of the full economic, social and environmental costs and benefits of policies, plans, programmes, projects and activities of energy production and utilization.
- 2) **Equity:** There should be equitable access to basic services to meet needs and ensure human well being. Each generation has a duty to avoid impairing the ability of future generations to ensure their well-being.

- 3) **Global and international cooperation and responsibilities:** Government will recognize its shared responsibility for global and regional issues and act with due regard for the principles contained in relevant policies and applicable regional and international agreements.
- 4) **Allocation of functions:** Government will allocate functions within the framework of the Constitution to the institutions and spheres of Government that can most effectively achieve the objective of a function within the context of energy policy.
- 5) **Participation:** Government will encourage the inclusion of all stakeholders in energy governance with the aim of achieving equitable and effective participation.

### **Factors Affecting the Prospects for Renewable Energy Implementation**

The amount of renewable energy that is actually consumed within the next 10 years will be a function of the regulatory framework with regard to electricity, liquid fuels and housing and building markets; the evolving electricity pricing structure; the incentives provided; the availability of supportive international finance – donor and private as well as Government funds, to enable implementation; the fiscal treatment of renewable energy; the final operational structure of the power sector and the ease of accessing the national electricity grid and wheeling power to end-users; detailed feasibility evaluation results for individual projects; private investment in renewable energy; public awareness, as well as the creation of a demand for green electricity in various sectors of the economy; the affordability of renewable energy technology; the market uptake of renewable energy technologies; voluntary GHG mitigation measures and enforcement of the CDM. The main energy emphasis in the *White Paper on Reconstruction and Development* was the electrification of 2.5 million households by 2000.

### **Barriers to Renewable Energy**

Barriers to the further implementation of renewable energy that need to be addressed in South Africa include: high cost of many renewable energy technologies on account of higher capital costs compared to conventional energy supplies for bulk energy supply to urban areas or major industries; high level of initial investment is required to implementation renewable energy technologies and may need support for relatively long periods before reaching profitability; lack of consumer awareness on benefits and opportunities of renewable energy; the economic and social system of energy services is based on centralized development around conventional sources of energy, specifically electricity generation, gas supplies and, to some extent, liquid fuel provision; financial, legal, regulatory and organizational barriers need to be overcome in order to implement renewable energy technologies and develop markets; lack of non-discriminatory open access to key energy infrastructure such as the national electricity grid, certain liquid fuels and gas infrastructure, and market power of utilities

## **DISCUSSIONS**

In this paper, we have closely looked at the renewable electricity policy guidelines of the Federal Republic of Nigeria and compared with the white paper on the renewable energy policy of the Republic of South Africa. The basis for comparison was born out of the fact that countries share so many things in common; our cultural heritages are close, both countries are developing even though South Africa has a blend into the developed economies of the world. We observed that the policy guidelines for the two African countries conform on many issues; visions, barriers to renewable energy and drive. However, the two policy guidelines disparate in two key respects:

- 1) There are two gray areas in Nigeria's policy document that needs be resolved. These are the policy principle and the renewable electricity target. In the South African policy, there is a clear cut principle within which the policy operates spanning full cost accounting, equity, global and international cooperation and responsibilities, allocation of functions and participation. The policy principle emphasises equity access to public utilities, allocates functions strictly within the framework of the constitution and participation of all stakeholders in the overall process leading



to the achievement of the set target of 10,000GWh renewable energy contribution to final energy consumption by year 2013.

- 2) Most of the content of policy guidelines in Nigeria is mere paper work and largely loaded. The operation of policies and indeed the constitution is a twist of the original document. That a renewable energy policy guidelines document exists is not tantamount to a way forward. The policy guidelines on renewable electricity were published in December 2006 but ironically, the energy situation has been graduating from bad to worst. Currently, power generation has reduced from about 4500 MW to less than 3000 MW with the breakdown at the Kainji hydroelectric dam due to lack of maintenance throwing the entire country into darkness.

Rather than hit the nail on the head the Nigeria set aside a set of loud policies that is targeted at promoting and regulating renewable electricity as follows:

**Policy 1:** *The Federal Government of Nigeria shall expand the market for renewable electricity to at least five percent of total electricity generating capacity and a minimum of 5TWh of electric power production, excluding large hydropower by 2016.*

**Policy 2:** *The Federal Government shall establish stable and long-term favorable pricing mechanisms and ensure unhindered access to the grid. Grid operators must guarantee the purchase and transmission of all available electricity from renewable electricity producers. While renewable electricity plant owners bear the cost of connection, grid operators must ensure the necessary system upgrade. All upgrade costs must be declared to ensure the necessary transparency.*

**Policy 3:** *The Federal Government supports the construction of independent renewable electricity systems in areas not covered by the electricity grid to provide power service for local economic activities and sustainable living.*

**Policy 4:** *The Federal Government will develop innovative, cost-effective and practical measures to accelerate access to electricity services in rural areas through renewable sources.*

**Policy 5:** *There shall be a Renewable Electricity Trust Fund which shall be set up under the Rural Electrification Fund.*

**Policy 6:** *The Federal Government is committed to a multi-stakeholder partnership in the delivery of renewable electricity to meet national development goals.*

**Policy 7:** *Nigeria is committed to broadening international cooperation in expanding the role of renewable electricity in meeting national development goals as well as contributing to global efforts in addressing climate change.*

The aforementioned policies notwithstanding, the law that established the power holding company of Nigeria (PHCN) as the sole provider of electricity in the country has neither been amended nor repealed to mention but one anomaly. Nigeria is well endowed. Nevertheless, as a result of misrule, Nigeria, one of the most endowed nations in the world was sometimes declared one of the poorest countries in the world. The problem of policy failure in Nigeria can be traced to one or more of these factors: government vested interest in policy implementation; policy inconsistency; policy contradictions; poor implementation of government policies; unrealistic policy; inadequate resources and problem of structure and platform for operation; among others.

It is a tradition that policies do fail in Nigeria due to what many people regard as Nigerian factor. Basically, the platform/structure to operate any kind of policy is faulty. Projects fail from conception stage because there is no clear cut standard based on defined project management methodology. Human capacity building is godfathers' based. Project implementation is bedevilled by mirage of problems and as a result the vision of a policy is aborted due to private and self interest of the political juggernauts. It is unfortunate that Nigeria economic system has no clear cut direction. The country basically runs a non-diversified economy that is only monolithic in nature in that Nigerian economy focuses only on one sector (the oil sector) and sad enough the country does not harness and utilize the opportunities derived from that sector for economic transformation.

The political will to implement laudable policy are absent where the concept is right as a result of corruption practices prominent among which is ethnicity. The much touted deregulation of power sector embarked upon by the Obasanjo's regime since 1999 has been suffocated by administrative bottleneck created by a clique in the country's political arena whom the government identified as the power sector cabal. Lack of continuity has erased the possibility of creating a leverage or sustainability of any kind of policy. The isolation of stakeholders from the conception stage to the execution stage has produced several thousand of substandard or outright uncompleted project which dotted the landscape of Nigeria. The present lacuna created in the polity of Nigeria is as a result of the policy failure on the part of government to actualize and deliver the dividends of democracy to the citizenry. Implementation of policies is a function of availability of resources. However, where resources are excessive in Nigeria, there is always the problem of mismanagement of resources born out of lack of holistic and comprehensive but lopsided approach to implementation of policies.

Finally, there is a major disconnect between research institutes, the universities, government agencies, the industries and the stakeholders. Therefore research grants are almost not available and where they are available they are grossly inadequate to make any meaningful achievement. To this end, the researchers are impoverished in their quest for research and development since sponsorship of research is solely by the individual whose responsibility is to break new grounds. Attendance of conferences are self sponsored or at best partially but meagrely by the research institute or the university. It is therefore difficult for Nigeria to get result until Nigeria emulates South Africa where research activities are overwhelmingly sponsored.

## **CONCLUSION**

In this work, we have considered energy as the pivot for sustainable economic development in any society, isolated renewable energy as the hope to meet the energy demands of the future and we have critically looked at the renewable electricity policy guidelines of the Federal republic of Nigeria in comparison to the white paper on renewable electricity of the Republic of South Africa with a view to identify gray areas of the Nigerian renewable electricity policy guidelines and analyze the factors that may be responsible for lack of outstanding achievement of Nigerian government in the power sector of the economy despite enormous resources that the government had deployed in that sector; the eighteen billion dollars of Olusegun Obasanjo's regime yielded dwindling power generation, the resources that went with the seven-point agenda of the Shehu Yar'Adua's regime into the power sector and the current efforts of the Goodluck Jonathan which eventually threw the entire country into total darkness. It is believed that if energy sufficiency for Nigeria is the only problem the present regime can solve, it will go a long way in our journey into vision 20:2020.

## **SUGGESTIONS**

In the light of our discussion above, it is imperative that we propose a way forward; we therefore suggest as follows:

- 1) Although the vision of renewable electricity policy guidelines is clear, the renewable electricity target should be explicitly stated so that all stakeholders can make inputs from time to time.
- 2) The policy principle(s) should be stated explicitly in the policy guidelines for easy referencing. Any policy without clearly stated principles does not have a guide and it is bound to fail.
- 3) In Nigeria, government dwells too much on paper works. Even when there exists a yardstick for measuring success it is oftentimes ignored to pave way for the "business as usual" syndrome. Government should enforce the laws whenever it is required to ensure compliance.
- 4) The platform/structure for the operation of a policy should be put in place at the conception stage of the policy to ensure the success of the policy.

- 5) Nigerian government should adopt a standard project management methodology for all kinds of project like PRINCE2 for UK government so as to facilitate hitch-free policy implementation as all stakeholders would have been familiar with its norms.
- 6) Government is a continuum. There should be policy consistency between a succeeding government and its predecessor in Nigeria. A new regime should take a critical look at the policy of the past regimes with the attitude to piloting such to achieving the set goals.
- 7) Government policies should be devoid of contradictions as much as possible.
- 8) Government policies should be realistic and should be built on adequacy of resources.

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## **An appraisal of handler awareness of electrical and electronic equipment toxicity in Nigeria**

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*Some developing countries in Africa are waking up to the broadband race by providing public access to ICTs to instigate social and economic development and to narrow the digital divide. One of such countries is Nigeria, which ranked 60<sup>th</sup> in 2006 in e-readiness report by the Economist Intelligence Unit. Consequently, the market, marketers and repairers of electrical electronic equipment (EEE) are growing geometrically in Nigeria. Incorporated in EEE are about forty-six separate chemical substances or elements, some of which are hazardous. Their emission from EEE translates to toxicity through inhalation of the polluted air, especially by marketers and repairers. Awareness of this danger is key to being mindful of and alive to exercising the necessary caution in handling EEE. The study assessed the awareness of marketers and repairers of EEE toxicity and their adoption of safety measures in handling them. Questionnaire copies were administered to randomly selected 80 marketers in Alaba International Market, Lagos and 20 repairers in C-to-C Plaza, Enugu. Results showed that all participants were completely ignorant of the toxicity of EEE and did not associate it with various symptoms of ill-health. The study recommends awareness creation programmes for marketers and repairers of EEE and making some policies to control their careless handling of EEE.*

### **Introduction**

Some developing countries in Africa are adopting the information communications technologies (ICTs) for the needed leverage in their development trajectory in the belief that it will contribute in instigating social and economic development and in narrowing the digital divide. Little wonder, the 2006 global e-readiness rankings positioned South Africa 35<sup>th</sup>, Egypt 55<sup>th</sup>, Nigeria 60<sup>th</sup> and Algeria 63<sup>rd</sup>. This is an indication that Africa is waking up to the broadband race (Gomez, et al., 2009; Mutula, 2005; Nkamnebe, 2010).

Also, a World Bank publication reports that “the digital divide” between the rich and poor nations is narrowing fast ..., telecommunications services to poor countries were growing at an explosive rate and the digital divide was rapidly closing. “People in the developing world were getting more access, especially to cell phone communications, far faster than they got access to new technologies in the past” (Mutula, 2005, pp.474-5).

In the information age, electrical electronic equipment (EEE) drive development and have consequently become ubiquitous even in developing countries. Therefore, their markets, marketers and repairers are growing geometrically.

Researches have shown that about forty-six (46) separate chemical substances or elements are incorporated in EEE. Some are toxic by inhalation of the air polluted by gaseous emissions of these chemical components from EEE (Slade, 2006; Murali, 2009). For instance, the emission of lead from EEE constitutes health hazards. Woolf, et al. (2007) posits that lead is a very strong poison. When lead dust is inhaled, some of the poison can stay in the body and cause serious health problems. Worse still, it

is more common for lead poisoning to build up slowly over time from repeated exposure to small amounts of lead. In this case, there will be no obvious symptoms. In adults, lead can increase blood pressure and can cause digestive problems, kidney damage, nerve disorders, sleep problems, muscle and joint pain, and mood changes.

Classification of the consequences of lead poisoning by toxicity levels has shown decreased learning, decreased verbal ability, early signs of attention-deficit/hyperactivity disorder (ADHD) and low intelligence quotient (IQ), as general effects. Mild toxicity produces abdominal discomfort, lethargy, mild fatigue, myalgia, and paresthesia. Moderate toxicity produces constipation, irritability, difficulty concentrating, diffuse abdominal pain, mild fatigue, headache, muscular exhaustibility, tremor, vomiting, and weight loss. Severe toxicity produces colic, encephalopathy (seizures, coma, death), lead line on gingival tissue, and paresis or paralysis.

Reports by Kari, et al., 2008, Timbrell, 2008 and Marshal and Bangert, 2008 show that the symptoms and signs of lead poisoning vary according to the individual and the duration of lead exposure. They may be subtle, and someone with elevated lead levels may have no symptoms. Symptoms usually develop over weeks to months as lead builds up in the body during a chronic exposure, but acute symptoms from brief, intense exposures also occur.

The main symptoms in adults are headache, abdominal pain, memory loss, kidney failure, male reproductive problems, and weakness, pain, or tingling in the extremities. The classic signs and symptoms in children are loss of appetite, abdominal pain, vomiting, weight loss, constipation, anaemia, kidney failure, irritability, lethargy, learning disabilities, and behavior problems.

In acute poisoning, typical neurological signs are pain, muscle weakness, paraesthesia, and, rarely, symptoms associated with encephalitis. Abdominal pain, nausea, vomiting, diarrhoea, and constipation are other symptoms of acute lead poisoning. Lead's effects on the mouth include astringency and a metallic taste. Gastrointestinal problems, such as constipation, diarrhoea, poor appetite, or weight loss, are common in acute poisoning. Absorption of large amounts of lead over a short time can cause shock (insufficient fluid in the circulatory system) due to loss of water from the gastrointestinal tract. Haemolysis (the rupture of red blood cells) due to acute poisoning can cause anaemia and haemoglobin in the urine. Damage to kidneys can cause changes in urination, such as decreased urine output. People, who survive acute poisoning, often go on to display symptoms of chronic poisoning.

Chronic poisoning usually presents with symptoms affecting multiple systems, but is associated with three main types of symptoms: gastrointestinal, neuromuscular, and neurological. Central nervous system and neuromuscular symptoms usually result from intense exposure, while gastrointestinal symptoms usually result from exposure over longer periods. Signs of chronic exposure include loss of short-term memory or concentration, depression, nausea, abdominal pain, loss of coordination, and numbness and tingling in the extremities. Fatigue, problems with sleep, headaches, stupor, slurred speech, and anemia are also found in chronic lead poisoning. A "lead hue" of the skin with pallor is another feature. A blue line along the gum, with bluish black edging to the teeth is another indication of chronic lead poisoning. Children with chronic poisoning may refuse to play or may have hyperkinetic or aggressive behaviour disorders.

According to the reports by Hu, et al. (2007), about 35-40% of inhaled lead dust is deposited in the lungs, and about 95% of that goes into the bloodstream of adults. Guidotti and Ragain (2007) report that the complications arising from lead poisoning show that lead affects every one of the body's organ systems, especially the nervous system, but also the bones and teeth, the kidneys, and the cardiovascular, immune, and reproductive systems. Hearing loss, tooth decay and cataracts have been linked to lead exposure.

An earlier study revealed a perfect positive correlation between the log dose of crude lead-extract from waste-EEE materials and % mortality of the rats to which the crude lead-extract from waste-EEE had been exposed by oral administration. The degree of confidence that crude lead-extract had lethal effect on rats was high, as well as the reliability. The lethal dose for rat was higher than the reported lowest lethal dose for man and the lowest lethal dose for guinea pig and dog.

Since the EEE marketers and repairers spend greater part of their time in the presence of EEE, the lethal concentrations of the various chemical components of EEE are easily attained (by inhalation). Osibanjo & Ogundiran (2010) submit that risk is the sum of hazard and exposure. In this case, emissions of various chemical components of EEE constitute the toxicity. The exposure or regular inhalation is high because the EEE marketers and repairers keep close with the equipment most day. Thus, the risk is high. This is a serious cause for worry over the toxicity of EEE. More so, as indoor air pollution and urban air quality, of which emission is a factor, are listed as two of the world's worst pollution problems in 2008 World's Worst Polluted Places report (Blacksmith Institute, 2008).

Awareness of this danger is key to being informed, enlightened, knowledgeable, mindful of and alert or alive to the need for exercising the necessary caution in handling EEE. The present study was aimed at minimising the environmental health effects of the chemical components of EEE on marketers and repairers in Nigeria. The specific objectives of the study were to (i) assess the awareness of EEE toxicity by marketers and repairers, (ii) assess the adoption of safety measures in handling EEE by marketers and repairers, and (iii) recommend measures to ameliorate the environmental health effects of EEE on marketers and repairers. The study assumed that EEE marketers and repairers (i) were not aware of the toxicity of EEE, and (ii) were not adopting safety measures for handling EEE.

The study will greatly benefit EEE marketers and repairers, as it offers them a thought regarding EEE toxicity and adopting safety measures for handling the equipment. The findings will guide government and non-governmental organisations on the need to create awareness on safety practices among EEE marketers and repairers. Policy makers will find the results of the study useful in formulating policies for ameliorating the environmental health effects of EEE on marketers and repairers.

## Methodology

Key informant technique was used to elicit information from randomly selected fifty (50) EEE marketers in Alaba International Market, which is famous for EEE trading business, and twenty (20) repairers in C-To-C Business Plaza, Nkpokiti Street, Enugu, Nigeria, where significant EEE repairing activities take place at commercial scale. All trader respondents had lasted 20 years upwards in the business, while repairers had lasted ten (10) years upwards on the job, to qualify for participation. Questionnaire copies were administered to the key informants to elicit information from them.

Part A of the questionnaire elicited demographic information on participants, while the Part B elicited information on the awareness of the participants of the toxicity of EEE and their adoption of safety measures for handling them. Answer options to each question were rated on a five-point likert scale: Strongly Agree (5), Agree (4), Not sure (3), Disagree (2) and Strongly Disagree (1).

Using the formula:

$$\text{Calculated value (CV)} = \frac{tFx}{tF}$$

Where  $F$  is frequency

$tF$  is total frequency

$x$  is scale point

$Fx$  is product of frequency and scale point

$tFx$  is total of product of frequency and scale point

Source: Osuala, 2007

the CV was compared with the decision value (DV) of 3 (neutrality value). If CV was greater than DV, then the answer was regarded as being in the affirmative, otherwise it was in the negative. Similarly, null hypothesis was rejected if CV was greater than DV, and accepted if otherwise.

## Results and Discussion

Table 1 contains demographic information on participants. No woman owned a marketing shop or repairs workshop for EEE. But, their spouses did, and all 100 participants were male. Therefore, the businesses were not gender-balanced, but a male affair.

All participants were literate, having obtained the first School Leaving Certificate, FSLC (7%), attained secondary education (21%), obtained the Ordinary/Higher National Diploma (OND/HND) (45%), bagged a degree (25%) and/or obtained a higher degree (2%). Therefore, the businesses were for the literate class of the society.

The mode age bracket of participants was 18-25 (28%), followed by 26-35 (24%), 36-45 (23%), 46-55 (15%), 56-65 (8%) and above 65 years (3%). Thus, the businesses were for the youth (18<sup>+</sup> years) and productive age (25 to 45 years) in the society. Although, 37% of the participants were single, 56% were married, and 7% either separated or divorced, showing that most of the participants were married. This implies that victims of EEE toxicity were mostly married people and the brunt of its ugly effects was borne by families. These ugly effects include loss of bread winners, orphaning children, child labour, street children, widowing women, widowhood practices, among others (Eneh & Nkamnebe, 2011).

Sixty-eight per cent of participants had been in the businesses for between 11 and 20 years, 21% for between 21 and 30 years, 7% for between 31 and 40 years, 4% for between 41 and 50 years, and none of them for above 50 years. Thus, people drop from the businesses as years go by, and hardly continued till old age. Those of them who drop into joblessness and idleness may get into vices, thereby creating some problems in the society.

Table 2 shows the data on the awareness of the marketers and repairers of the toxicity of EEE and their adoption of safety measures. Forty-nine (49) or 49% of participants strongly disagreed that EEE emit hazardous gases that they inhale, 29 disagreed, and 21 were not sure. None of them (0%) agreed and none (0%) strongly agreed. The CV (1.70) was less than DV (3.0), showing that the answer was in the negative. That is, all participants were completely ignorant of the fact that EEE emit toxic gases. And, this ignorance is suicidal.

**Table 1: Personal data of participants**

Subject		% Score
1. Sex:	Female	0
	Male	100
2. Highest educational level	FSLC	7
	Secondary education	21
	OND/HND	45
	Degree	25
	Above degree	2
3. Age bracket	18-25	28



	26-35	24
	36-45	23
	46-55	15
	56-65	8
	Above 65	3
4. Marital status?	Single	37
	Married	56
	Separated/divorced	7
5. No. of yrs on the business involving polymer resin	11 – 20	68
	21 – 30	21
	31 – 40	7
	41-50	4
	50 upwards	-

Source: Field work, 2011

**Table 2 Awareness of health effects and compliance with manufacturer's guides**

	Lycert scale (x)					tF	tFx	CV	Remark	Decision
	1	2	3	4	5					
1. EEE gas mission Frequency (F) Fx						100	170	1.70	CV < DV. Answer is neg.	Accept null hypothesis (i)
	49	29	21	0	0					
	49	58	63	0	0					
2. EEE toxicity Frequency Fx						100	171	1.71	CV < DV. Answer is neg.	Accept null hypothesis (i)
	48	33	19	0	0					
	48	66	57	0	0					
3. Symptoms knowledge Frequency Fx						100	176	1.76	CV < DV. Answer is neg.	Accept null hypothesis (i)
	38	31	28	3	0					
	38	62	64	12	0					
4. People quitting trade Frequency Fx						100	143	1.43	CV < DV. Answer is neg.	Not applicable
	59	39	2	0	0					
	59	78	6	0	0					
5. Need to quit trade Frequency Fx						100	144	1.44	DV > CV. Answer is affirmative	Not applicable
	61	34	5	0	0					
	61	68	15	0	0					
6. Quitting trade before old age Frequency Fx						100	168	1.68	CV < DV. Answer is neg.	Not applicable
	48	38	12	2	0					
	48	76	36	8	0					
7. Need for precaution Frequency Fx						100	155	1.53	CV < DV. Answer is neg.	Accept null hypothesis (ii)
	63	26	5	4	2					
	63	52	15	16	10					

8. Knowledge of caution Frequency Fx						100	156	1.56	CV < DV. Answer is neg.	Accept null hypothesis (ii)
	60	31	4	3	2					
	60	62	12	12	10					

Source: Field work, 2011

Forty-eight (48) or 48% of participants strongly disagreed that inhaling the emissions from EEE caused them some health problems, 33 disagreed, and 19 were not sure. None of them (0%) agreed and none (0%) strongly agreed. The CV (1.71) was less than DV (3.0), showing that the answer was in the negative. Therefore, all participants were completely ignorant of the fact that their inhalation of hazardous gases emitted from EEE caused them some health problems. In their ignorance, more havock would likely result because they would not care to take precaution.

Thirty-eight (38) or (38%) of participants strongly disagreed that inhaling emissions from EEE had anything to do with some symptoms of ill-health, 31 disagreed, 28 were not sure, 3 agreed, and none (0%) strongly agreed. The CV (1.76) was less than DV (3.0), showing that the answer was in the negative. That is, most (97%) of the participants did not associate any symptoms of ill-health with inhalation of emissions from EEE. This ignorance would only occasion more harm.

Fifty-nine (59) or (59%) of participants strongly disagreed that some EEE marketers and repairers have had to quit the trade because of EEE toxicity and its effects on them, 39 disagreed, and 2 were not sure. None (0%) agreed and none strongly agreed. The CV (1.43) was less than DV (3.0), showing that the answer was in the negative. That is, although all participants were aware of some of their colleagues quitting the trade, they were certain that none of such cases had to do with EEE toxic effects on them. But, this ignorance would not stop the harm.

Sixty-one (61) or 61% of participants strongly disagreed that they could be required to quit the EEE trade on account of EEE toxic effects on them, 34 agreed, and 5 were not sure. None (0%) agreed and none strongly agreed. The CV (1.44) was less than DV (3.0), showing that the answer was in the negative. That is, most (95%) participants were certain it would not come to their being required to quit the trade on account of EEE toxic effects on them. This ignorance would not help matters.

Forty-eight (48) or 48% of participants strongly disagreed with the speculation that they would not last on EEE business till old age of retirement because of EEE toxic effects on them, 38 disagreed, 12 were not sure, and 2 agreed. None (0%) strongly agreed. The CV (1.68) was less than DV (3.0), showing that the answer was in the negative. That is, most (86%) participants were certain it would not come to their being required to quit the trade before their retirement age because of EEE toxic effects on them. This ignorance is as dangerous as the harm precursor.

Sixty-three (63) or 63% of participants strongly disagreed that they needed to adopt some safety measures for handling EEE, 26 disagreed, 5 were not sure, 4 agreed, and 2 strongly agreed. The CV (1.53) was less than DV (3.0), showing that the answer was in the negative. That is, most (91%) participants were certain that there was no need for adopting some safety measures for handling EEE in order to minimise toxic effects. Again, this ignorance is as dangerous as the harm precursor.

Sixty (60) or 60% of participants strongly disagreed with the safety measures for handling EEE, 31 disagreed, 4 were not sure, 3 agreed, and 2 strongly agreed. The CV (1.56) was less than DV (3.0), showing that the answer was in the negative. That is, most (95%) participants disregarded the safety measures for handling EEE and did not apply them. This attitude was not helpful, but suicidal.

## Tests of hypotheses

Questions B1-3 probed the awareness of participants of the toxicity of EEE. Their respective CVs were 1.70, 1.71 and 1.76, each being lower than the DV of 3.0. Therefore, null hypothesis (i) was accepted for each of the cases. That is, marketers and repairers were not aware of EEE toxicity.

Questions B7 and B8 probed the adoption of common safety measures for handling EEE. Their respective CVs were 1.53 and 1.56, each being lower than the DV of 3.0. Therefore, null hypothesis (ii) was accepted for each case. That is, marketers and repairers were not adopting safety measures for handling EEE.

## Findings, Conclusion and Recommendations

Summary of results showed that:

1. All participants were completely ignorant of the fact that EEE emit hazardous gases.
2. All participants were completely ignorant of the fact that their inhalation of the hazardous emissions from EEE caused them some health problems.
3. Most (97%) of the participants did not associate any of the common symptoms of ill-health with inhalation of emissions from EEE.
4. Although all participants were aware of some of their colleagues quitting the trade, they were certain that none of such cases had to do with EEE toxic effects on them.
5. Most (95%) participants were certain it would not come to their being required to quit the trade on account of EEE toxic effects on them.
6. Most (86%) participants were certain it would not come to their being required to quit the trade before their retirement age because of EEE toxic effects on them.
7. Most (91%) participants were certain that there was no need for adopting some safety measures for handling EEE in order to minimise toxic effects.
8. Most (95%) participants disregarded the safety measures for handling EEE and did not apply them.

Toxic substances are ubiquitous; no one can run away from them. Their uses are getting increasingly important; people need to use them for personal and society development at various levels. Therefore, exercise of caution is what is required from EEE marketers and repairers. They need to know that their stock contains chemical components that emit hazardous gases and that their inhalation of these emissions leads to adverse health effects that manifest in various symptoms of ill-health. Therefore, they need to adopt the necessary safety measures for handling EEE.

It is recommended, therefore, that:

- ✓ EEE shops/workshops be well ventilated;
- ✓ EEE marketers and repairers should take breaks from their shops/workshops;
- ✓ EEE marketers and repairers should take vacations from their jobs;
- ✓ EEE marketers and repairers should wear nose masks and gloves in workplace;
- ✓ The government and non-governmental organisations should conduct awareness creation fora to enlighten the EEE marketers and repairers on proper professional practice to minimise the toxic effects of EEE on them;
- ✓ Policies should be made to control the careless handling of EEE by marketers and repairers, in order to curb health maladies, life tolls and socio-economic losses attendant upon growing EEE sales and services businesses in the era of idiosyncratic adoption of ICTs.

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## **Project finance in Ghana: A case study of a failed independent power project**

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*The practice of project financing in Africa is not well understood. For example, one can point to many successful and unsuccessful financing arrangements. While the literature provides some guidance in respect of success factors, one wonders whether there are lessons to be learnt from arrangements that did not succeed. We examined an IPP project financing arrangement that failed in spite of its domestic sponsors having the technical capacity to succeed. Our analysis suggests that the blame for the failure rests in part on the impatience of the domestic sponsor but more so on the non-commitment to the project by a foreign sponsor brought in by a potential foreign lender.*

### **Introduction**

The importance of infrastructure in promoting economic growth is very well established in the economic growth and development literature. However, infrastructure development is expensive. Traditional sources of funding infrastructure acquisition in Africa such as tax revenues and development assistance continue to dwindle. Increasingly, governments have been eyeing private sector funds for public infrastructure development.

Infrastructure developments are usually handled as projects. Often, projects are complex and structuring them poses special challenges. The challenges include higher transaction and negotiation costs, allocating risks appropriately among the different stakeholders, establishing transparent credit worthiness of sponsors, minimizing agency costs, etc.

Project basis of committing resources is the “temporary” commitment of resources towards a unique end. Project financing therefore is the financing of an asset, service or result on project basis. Project finance is gaining prominence as a technique of business finance in the developing world. The key drivers of the trend are the infrastructure development gaps of the nations (World Bank, 2004) and lack of investment capital in the public purses. The populations of these countries are increasing fast and public infrastructures are coming under increasing pressure.

The Government of Ghana has been seeking, what it calls strategic engagements in public-private partnerships, (PPP), to develop toll roads, power systems, refineries, inland ports, housing estates and cold storage facilities. PPPs offer several advantages in the provision of infrastructure and services. Principally, they enable governments to provide better infrastructure and services through the use of private sector financial, human and technical resources, thereby freeing the government resources for other equally important uses.

Researchers note that the practice of project finance is ahead of the development of theory, e.g. Finnerty (2007). One explanation is that the project finance portfolios of banks are still relatively small and therefore only little research has focused on the discipline. The literature suggests factors that could lead to project success or failure in any country (Vaaler et al., 2006). A number of projects in Ghana have been

successful. Others have not been so successful. Jeffries (2002) report that the successful planning and execution of *build, operate and transfer* (BOT) schemes among independent power producers (IPP) involves consideration of what others call the five factors. They are:

1. Project – the identification and preparation of a suitable project
2. Partner/s – paying close attention to the private sector partners in terms of goals, political influence, equity contribution and project management capacity
3. Pattern – investment structure including local content and equity participation; it gives regard to gearing, incentive schemes and pricing
4. Profitability – profit predictability; this has strong links with project economics and stability of the macroeconomic environment
5. Protection – nurturing and protecting relationships among project partners and also ensuring agreements effectively handle market and foreign currency risks.

The World Bank (2003) suggests that these factors tend to interplay in unique ways in different environments.

On their part, Eberhard and Gratwick (2010) studied 22 independent power plans (IPP) projects in eight African countries including Ghana and addressed themselves to the question of success factors. They identified two categories of factors that determine the success of an IPP deal. They distinguished between country level factors and project level factors. The country level factors include investment climate, policy framework, regulatory oversight, planning and secure raw material contracts. Critical project level or investor perspective success factors include equity arrangement, debt arrangement, secure and adequate revenue stream, credit and security enhancements, technical performance and strategic management and relationships.

Using a factor analysis approach on build-operate-and-transfer (BOT) projects, Hardcastle et al. (2005) identified five factor groupings as the critical success factors for project development. The factor groupings are effective procurement, project implementability, government guarantee, favourable economic conditions and a viable financial market. In another study of BOT projects in Egypt, Sherif, El-Mikawi and El-Mageed (2005) conclude that the two most important factors for success are what they call “entrepreneurship and leadership” and “strength of the consortium”.

This study addresses itself to a project that was not successfully implemented. It is the case of a USD 130 million power generating project involving Ghanaian and non-Ghanaian stakeholders. It started as a project sponsored by a Ghanaian registered company, but due to financial constraints, non-Ghanaian sponsors were later brought in. The project struggled and a number of timelines were not met. In particular, financial closure that was initially to have happened in October 2008 did not materialize. Financial closure is the point at which a binding contract for the creditors to make funds available and sponsors give undertaking of debt servicing is signed. Because financial closure never happened, potential lenders never made money available and power was never generated. By the second quarter of 2011, the special purpose vehicle was in receivership.

## **Background**

Ghana’s electric energy generation is mainly from hydro and thermal sources. The total generated by these two sources was GWh 7,223 in 2000, which rose to GWh 10,166 in 2010, a rise of 3.5% per annum. At this rate, the authorities forecast electricity deficit starting 2012. Currently, Ghana imports some energy from Cote d’Ivoire, even though she herself sells some energy to Togo and Benin, thanks to an agreement entered into many years ago when Ghana was generating excess power.

To take advantage of government's PPP policy, a special purpose vehicle (SPV), GECAD Limited, was incorporated in Ghana in June 2006, to develop a 126 MW independent power plant to generate and supply electric power. GECAD Limited was owned by GECAD Ghana Limited (GECAD-G) and GECAD Inc of the USA. The project itself was called Tema Osonor Plant Limited (TOPL).

TOPL would use natural gas and was expected to cost USD 130 million to be financed 20% equity and 80% long-term debt. Ghana's Ministry of Energy (through its agent, the Volta River Authority, VRA) will buy all power generated for 25 years. Tariffs for sale of power to the Ministry have been negotiated.

GECAD-G had successfully built a 126MW plant in Tema, Ghana, for VRA. GECAD-G's board chairman is an experienced Ghanaian, an ex-General Electric company of the US employee. He is an energy expert and an electrical engineer by profession. The Managing Director of GECAD-G is a very experienced entrepreneur with extensive exposures in the international capital markets and the world of energy. Together, the two men, working with several other highly qualified and experienced Ghanaians, command vast operational, technical and managerial expertise. Over the last two decades, the team has executed projects totalling over \$500m in the West African sub-region.

### Licenses and contracts

TOPL's advisory team includes legal advisers, financial and transaction advisers and technical advisers. The commercial arrangements called for the following agreements and permits, inter alia, to be completed in order for the project to reach financial closure:

- Power Purchase Agreement;
- Generating License;
- Engineering, Procurement and Construction Contract;
- Supply Contract with GE;
- Operations and Maintenance Agreement;
- Common Facilities and Services Agreement, including Fuel Supply;
- Contractual Services Agreement ("CSA") with GE;
- Loan Agreement;
- Shareholders Agreement;
- Standby Letter of Credit from the Government of the Republic of Ghana;
- Insurance Arrangements;
- Environmental Impact Assessment Permit; and
- Environmental Usage Permit.

The timelines indicated in Table 1 were to apply. The plant was to start supplying electrical power in the third quarter of 2009. To this end, GECAD Limited signed a Gas Turbine Generator supply contract with GE Energy in June 2007, even when financial closure had not taken place.

Table 1: Scheduled timeline for major events.

<b>Description</b>	<b>Target date</b>
Selection of Operations and Maintenance Contractor	31 July 2008
Finalisation of Operations and Maintenance Contract	31 August 2008
Finalise Commercial Sales Agreement contract	31 July 2008
Draft Project Information Memorandum	23 June 2008

Equity Road show	03 July 2008
Selection of Equity Partners	11 July 2008
Finalisation of Equity Agreements	30 September 2008
Finalise Debt Term Sheet	30 June 2008
Finalisation of Loan Agreements	30 September 2008
Financial Closure	01 October 2008
Commercial Operational Date	31 August 2009

The objective of this paper is to conduct a case study of TOPL to understand why it never took off, in spite of the presence of important success factors such as technical competence of original sponsor, ready market for its output, reliance on an established power generating technology, etc. The next section discusses aspects of project finance literature that are pertinent to this study, then we outline the methodology employed in this study. We then present our finding and some reflections.

## LITERATURE

Developing countries design infrastructure development schemes to attract foreign direct investments and to foster economic growth (Kleimeier & Versteeg, 2008). Additionally, value for money, technology transfer, fiscal prudence and improved cost efficiencies are some of the reasons why the technique is receiving increased attention (Burger et al., 2009). Since the 1990s a push factor has been the progressive withdrawal of funds from state-owned projects in favour of international infrastructure entrepreneurs, by multilateral and bilateral development institutions.

Project finance usually involves the creation of industrial or infrastructure assets requiring huge amounts of money, usually far more debt than equity. Debt repayment derives from the cash flows of the industrial asset created and not on the general credit of project sponsors. The resulting industrial asset, together with the project contracts, become the collateral for the debt.

Depending on the objectives of the stakeholders of a project, the advantage to being a party to a project could be any one of (or combination of) political advantage, economic profits, financial return, value-for-money, social credits, etc. A project finance deal involves many different parties in complex contractual, structural, financing and political-social relationships. For a deal to work, the linkages among its component entities must function well or optimally. The degree to which such factors and relationships impact the final fortunes of a deal vary. Additional success factors identified in the literature included sponsor status, borrower quality, deal quality, experience and name visibility seem to enhance project finance debt procurement transactions (Esty, 2004; Godlewski, 2008).

The African Development Bank is a major project financier on the continent. Gohou and Soumare (2009) observe that the average delay between AfDB board approval to fund a project and the first disbursement of funds is about 24 months. They further observe, among others, that large projects appear to have less delay than smaller ones, delays are lowest for multinational projects and that delay in the disbursements of loans is longer than in the disbursements of grants. Invariably, these delays increase the risk levels of projects and also lead to cost overruns. Other challenges that affect the technique include regulatory (Eberhard & Gratwick, 2010) and stakeholder issues.

## Project Finance in Ghana



Project financing has been used in Ghana for some time. It was applied to telecommunications investments and gold mines during the 1980s and 1990s. Though these works allude to aspects of project finance, research evidence into the technique and its practice in Ghana generally, however, is lacking. This work attempts to fill the gap.

## **RESEARCH METHODOLOGY**

Project Finance is relatively unexplored as a technique of business finance in Ghana. The critical variables or factors that affect its practice are unknown. We pursue a case study approach to throw light on a project financing arrangement that did not work out. This the effort involved interactions between the researchers and enactors of project finance in Ghana. The case study strategy is suitable because it facilitates exploration of the phenomenon under study within its context using a variety of data collection methods. By nature, the subject matter of Project finance in the developing world may be described as data-rich and theory-poor (Esty, 2002; Gatti, 2008). For this reason, cases are and will remain the major elements for providing understanding to the phenomenon.

### **Data Collection Methods**

For the strategy adopted, both primary and secondary data were collected. Primary data were collected specifically from interactions with the key actors or informants of the projects. Secondary data were collected from documents, images, artefacts and other materials relevant to the research.

Data Collection was done in stages. The researcher elicited data from the people and the project of study through participant observation, interviews and archival studies. Best practice lessons drawn from the literature survey was used as a baseline to assess empirical data that were elicited from practitioners on the selected project through questions posed by it. Data analysis was done concurrently with data collection as more questions, insights, propositions and pictures emerged with data collection.

### **Construct Validity**

In a phenomenological study, validity refers to how accurately an informant's account represents the phenomenon under study and is credible to them (Creswell & Miller, 2000). In other words, a valid measure reflects what it claims to reflect and not something else. To this end, the researcher used multiple sources of evidence, established chains of evidence and had key informants review draft case study reports. Key informant triangulation, data triangulation, source triangulation, etc. were additional strategies the researcher used to ensure validity. By linking data collection questions to research questions, subjectivity in data collection was reduced.

### **Reliability**

Reliability demands consistency in data and findings. It involves demonstrating that the operations of the study such as the data collection process and data produced can be repeated with the same results. Basically, a reliable result or process is one which will deliver the same or similar results no matter the number of times it is done, whether by the same researcher or different researchers under similar conditions. If the data collection and analysis techniques will be credible and consistent then all participant, subject and observer error and bias must be removed or minimized. The researcher painstakingly documented procedures and appropriately recorded details to consolidate the authenticity of the database of the study.

## **FINDINGS**

GECAD Limited's initial equity was not cash but recognition for work done. As negotiations for debt funds progressed there was the need for equity cash injection. Not having the cash, GECAD Limited had

to settle for additional shareholders who would bring in cash. Long after the October 2008 proposed date for financial closure, a shareholders' agreement was signed involving the new shareholders of TOPL. The share ownership was GECAD Limited (5%), Standard Bank of South Africa Limited (44%) and Aldwych Osonor Holdings Limited (51%). The Share Purchase Agreement was duly executed on 30<sup>th</sup> September 2010, long after the project was to have started commercial operation. At the time of signing the agreement, Aldwych Osonor Holdings Limited (AOHL) had not paid for the shares it received from GECAD.

Standard Bank of South Africa Limited is one of the biggest banks in Africa. AOHL was brought into the picture by the potential senior debt lenders as an equity holder. Their claim was that an "expert and acceptable firm" was needed to move the project to financial close (in order for the project to be deemed bankable).

### **Raising Debt**

Long-term (senior debt) was to be provided by the African Development Bank (AfDB), Emerging Africa Infrastructure Fund (EAIF), and the Entrepreneurial Development Bank of the Netherlands, FMO. As part of the deal, FMO was to advance a mezzanine facility of USD 10m to the project. This mezzanine facility was designed to have share convertibility rights. AfDB and FMO were supporting the project under an initiative they call African Financing Partnership (AFP), meant to enhance collaboration between the two organizations.

AfDB is a multilateral development bank established by agreement among its member countries, majority African. FMO is a development bank of the Netherlands. It was founded by the Dutch government. It is the lead arranger for the long-term debt providers on the project. EAIF is a public private partnership that provides debt or mezzanine funds, on commercial terms, for private infrastructure development across 45 countries of Sub-Saharan Africa. It offers between USD 10m and USD 36.5m per project across a wide range of sectors for both new and existing facilities. FMO and AfDB co-sponsored EAIF.

### **Debt Bridging Arrangement**

To ensure that the project performs on schedule, GECAD Limited, while still 100% owner of TOPL (in August 2007) raised short-term (just over a year) bridging loans in three tranches totalling USD 35 million to place an order for the delivery of the main Gas Turbine and to start construction at the project site. The bridging loan was in anticipation of the long-term debt funds becoming available according to the timeline in Table 1.

### **Structuring the Deal – Project Contracts**

TOPL obtained all the requisite approvals and permits from government and became the nucleus of a complex nexus of contracts. TOPL used these contracts to optimize its options through the allocation of risks to the parties best placed to manage them.

The power purchase agreement (PPA) is the main project contract and deal trigger. It is an off-taker agreement under which the government (the off-taker) will buy power on capacity basis from TOPL and also pay fees for the operations and maintenance of the plant. This is denominated in United States dollars, a practice that significantly reduces exchange rate risks for TOPL. The arrangement allowed for tariffs to be reviewed periodically. As part of the PPA the government committed to "supplying gas and/or fuel oil for conversion to electric power and to buy same from TOPL".

The Engineering, Procurement and Construction (EPC) contractor was GECAD Ghana Limited. GECAD Ghana Limited is a power sector services company with rich experience in Ghana and West Africa. Starting 1994 it has delivered projects in excess of USD 500m in the sub-region working in close

collaboration with some of the most reputed power systems companies the world over. Most recently the EPC designed, procured, constructed and delivered to the government of Ghana a 126MW gas fired thermal plant in February 2009 (exactly identical to the one under consideration). Indeed, the team is best placed to manage the construction risks. In this arrangement GECAD Ghana Limited assumed the completion risks.

TOPL and the government agency to which the February 2009 plant referred to earlier, was delivered have entered into a common facilities and services agreement. It includes the supply of services, water, air, etc. This agreement takes supply risks off the shoulders of TOPL and effectively transfers it to government.

GECAD Limited engaged the services of experienced reputable organizations in various advisory roles on the project. Construction at the plant site started March 15, 2008. In October 2008 the board of African Development Bank (AfDB) approved two senior loans totalling \$35 million for the Project. By this time, the construction of the plant was on-going and was about 65% complete. By March 2009, the main foundations and almost all the civil works had been completed. Generating equipment (Gas Turbine) too had been delivered and installed, and over 90% of other equipment and accessories needed for project completion had arrived at the project site. GECAD Ghana Limited achieved these construction feats in record time, relative to conclusions other researchers have reached, Godlewski (2008) and Esty (2004).

In the first quarter of 2009, the Dutch Development Finance Institution (FMO) and the Emerging Africa Infrastructure Fund (EAIF) also obtained initial clearances from their respective credit committees to participate in the funding of the USD 68 million long-term debts required. However, the process for concluding the financial arrangements and conditions precedent for FMO and EAIF to obtain final credit committee approval were very laborious and unnecessarily intense.

The potential senior long-term lenders made two significant observations regarding credit risk. They claimed that GECAD Limited, on its own, neither had the strength of balance sheet nor the requisite experience to undertake the total development of such a major infrastructure project. To them, they required an “expert and acceptable firm” to move the project to financial close. This observation was made notwithstanding the fact that GECAD Ghana Limited had just completed the Engineering, Procurement and Construction management of a similar 126MW power plant for the Government agency referred to earlier. It also ignores the fact that GECAD Limited had raised finance and concluded 65% of the construction work on the Tema Osonor Power Project.

FMO argued for an increase in the equity contribution to 30%. Then they identified Aldwych Osonor Holdings Limited as a reputable firm which should be part of the equity holders (sponsors). It was at this stage that the shareholders’ agreement between the three shareholders was signed. At the time of this signing however, AOHL had not paid for the 51% stake.

Unfortunately, AOHL did not get on well with its co-sponsors, nor did it get on well with the bridging fund providers. TOPL started getting nervous. Meanwhile, FMO had gotten wind of the disquiet among the parties and it started demanding that project sponsors conclude certain project and transaction documents. TOPL, certainly GECAD Limited, viewed these demands as virtually assuring the lenders of a risk-free undertaking.

AOHL was a British company based in London that was set up in 2004 with some reputation of having worked in Africa. It was forced on the project to take up an equity position and become a co-sponsor of in TOPL. GECAD Limited initially resisted the move but caved in subsequently because it was patently obvious that financial close would be delayed or hampered if AOHL did not get involved in the project.

All these wrangling were taking a toll on the project schedule and timelines. The project was planned to achieve commercial operations during the third quarter of 2009. Meanwhile, by March 2009, the project had not attained financial closure so that the potential senior debt providers would release funds. To worsen matters, the bridge syndicate had become nervous and was unwilling to put in additional funds. As a result the project stalled. It stalled because of a shortage of funds. The bridge syndicate had become frustrated with TOPL for not fulfilling commitments to repay what had become a distressed bridge loan. Eighteen months after making the 12-month bridge loan, consequently, the syndicate took the decision to foreclose on TOPL assets. The bridge syndicate moved for foreclosure for “default and continuing default”. As part of the legal action, it applied for and obtained a court injunction restraining TOPL from continuing work on the project.

To the bridge syndicate, court action promised to be an effective way of recovering the assets of TOPL and incepting a new project to complete the power plant. On 13<sup>th</sup> May, 2011 the bridge syndicate obtained a court judgment which placed the assets of TOPL into receivership.

### **Analysis of developments**

To begin with, TOPL began construction when it had not achieved financial close. Sometimes, such practices appear to be a logical way to speed up delivery, but such an approach can become fraught with problems as identified by PMBOK Guide (2008). At the time it negotiated the bridging loan, TOPL had only received verbal assurances from potential long term lenders. Expecting that it will attain financial close with senior debt creditors, TOPL expected that it would need the bridging facility for about 12 months only. As we have seen, things did not work out.

A bankable reputation is one that is of interest to bankers; one that gives a bank comfort to advance loans. Among its attributes are a feasible project, appropriate project structuring, wealth of expertise, technical (sector specific) capacity, project management capacity, acceptable experience, strong project team, equity contribution, financial commitment and other process guarantees, entrepreneurial leadership, a good profile, favourable stakeholder perception and beneficial associations. The potential long-term lenders, certainly FMO, thought the original GECAD Limited did not have this.

TOPL should also have known that historically, it has taken the AfDB 24 months between board approval and actual disbursement. There were other indications of disbursement delays that should have informed TOPL. Godlewski (2008) had studied project loan syndication disbursement delays for 59 countries. For Ghana he investigated three loan tranches and calculated a mean delay of 45.33 months for Ghana. Consideration of this time lag would have alerted TOPL that AfDB board approval of the loan in October 2008 did not mean that funding was imminent. Yescombe (2002) has suggested that this is often the critical path item for projects. When projects delay because of syndication and disbursement delays, other debt financiers quickly act to cut their losses.

What appears to be another mistake by GECAD Limited was that at the time of signing the Shareholder’s Agreement, AOHL which had become majority shareholder had not paid for the shares it received from TOPL. Was TOPL so desperate for the FMO loan that it took such a step?

Could TOPL have done anything differently? It is true that long-term debt is scarce in Ghana, but could TOPL not have negotiated a longer-term arrangement with the bridge syndicate than the 12 months they did? Commercial operations were another 12 months or so away. Thus, a loan with a term of 24 months or so could have served the purpose. If commercial operations had indeed started after 24 months, TOPL would have been in a position to refinance the facility with the same or other lenders (TOPL having been made more attractive to lenders by the start of commercial operations).

We note however that the bridging loan amount was almost USD 35 million. Given that the long-term debt of USD 68 million was expected, AfDB's USD 32 million debt would have reduced the extra loan to be raised to USD 33 million. (This was the amount FMO and others would have provided). Could they have raised this from elsewhere? Where could they have raised this from, becomes the question. GECAD Ghana Limited had solid project delivery experience behind them, which would have helped convinced may a potential lender.

FMO must also accept some of the blame, for as it turned out, AOHL whom FMO introduced to the project did not have a solid reputation of its own, did not contribute equity and did not get along with other sponsors and the bridging loan consortium.

It would appear that this project did not have what Sherif et al. (2005) called "strength of "consortium" and Esty (2004) and Godlewski (2008) called "name visibility".

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## **Entrepreneurship, Small Business and the Informal Sector**

## **Ethnic Enclaves to Transnational Entrepreneurs: A Critical Appraisal of Nigerian Entrepreneurship in London**

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*This research paper examines the narratives of how six transnational entrepreneurs in London have internationalized their businesses through a conceptual framework of individual, firm, and environmental factors. Employing case study methodology, it was revealed that analysis on the micro, meso, and mega levels provides a useful template by which an in-depth understanding of the phenomenon of transnational entrepreneurship can be achieved. Furthermore, entrepreneurs are able to leverage personal, ethnic, and structural resources that allow them to concurrently engage in social and business activities in the UK & Nigeria. Research, policy implications, and limitations are then discussed.*

### **Introduction**

Cross-border economic activities are known to have dated as far back as the trading Diasporas of the middle ages (Cohen, 1998). But there was a long hiatus in cross-border studies till lately; thus creating gaps in the literature (Portes, 2003). However, increasing number of immigrant entrepreneurs have become transnational (Chen & Tan, 2008), particularly black African ethnic Diaspora entrepreneurs. As a consequence, research into this phenomenon has become imperative. Hence this study directs attention to the naissance of black African Diaspora transnational entrepreneurship and clarification of the underlying mechanisms determining their life-path so as to identify accurate policy measures to enhance this genre of ethnic entrepreneurship which is of prime importance to the development of Sub-Sahara African countries.

The basis in theory for defining entrepreneurship as the formation of a new venture is provided by the socio-economic phenomenon, which is the consequence of three distinct and interconnected components; the entrepreneurial individual, and the entrepreneurial organization, existing within the context of the environment. These three components and their relationship to each other will influence the success of a venture (Gartner, 1984); Low & McMillan (1988) also provide a justification by admitting that to understand entrepreneurship, researchers ought to comprehend process, context, and outcomes. Aldrich & Martinez (2001: 520) argue on “(how) strategies are constructed, molded and adapted in processes of interaction with environments”. Simply put, transnational entrepreneurship is shaped by a coalition of social forces at multiple levels; formed at the macro level by the opportunity structure and at the micro level by individuals’ access to resources (Shane & Venkataraman, 2000). Subsequently, the question is asked: To what extent are the relationships between the elements of the individual, the firm, and the environment, affect the emergence of African ethnic transnational entrepreneurship and how do they shape its development? An effective approach to answering the question is by examining the phenomenon through unified bifocal (dual locations) tri-dimensional factors of the environment, firm specific characteristics and personal characteristics framework. This will help in gaining a deeper understanding of the relationship between motivations and strategies, and of the structural limitations and experiences.

The paper is organized as follows: firstly, transnational concept is examined along with transnational entrepreneurship. The next section describes the methodology and methodology approach. The empirical findings inculcated in the conceptual framework are then presented, and the last sections dealt with the implications, limitations, summary and conclusions.

### **Concept of Transnationalism**



Transnationalism encapsulates an increasing number of people that live dual lives; “speaking two languages, having homes in two countries, and making a living through continuous regular contact across national borders” (Portes et al., 1999: 217). Activities within the transnational field cover a wide scope of economic, political and social initiatives, including informal import-export businesses (Portes et al., 1999). Transnationalism as an indicator of broadly defined interdisciplinary fields of inquiry reflects its role as a ‘sensitizing notion’ (Meyer and Geschiere, 1999: 1). It accentuates a “de- and recoupling of culture and place, through which cultural identities are no longer clearly wedded to particular nation states” (Philip Crang et al., 2003: 439). The dialectics of the concept is unveiled in the dichotomy of assimilation and transnationalism. Links between ‘here’ and ‘there’ are an intrinsic and enduring element of transnationalism, and this is constrained by the contemporary nation states’ attempts to hem in societies by keeping themselves apart from the others or by more informal, ethnocultural membership practices that serve the same objective of restricting movements (Waldinger and Fitzgerald, 2004).

### ***Transnational Entrepreneurship***

The process of transnational entrepreneurship entails entrepreneurial activities that are conducted by individuals who are rooted in at least two different social and economic arenas. Transnational entrepreneurs are individuals that shuttle from one country to another, simultaneously maintaining business-oriented relationship with their countries of origin and residence. By travelling both physically and virtually, transnational entrepreneurs concurrently engage in cross-national business activities that enhance their economics resources (Drori et al., 2009). Transnational immigrants start businesses in the country of residence and become self-employed. Self-employment enables transnational immigrants to create their own jobs, hence allowing them to avoid some barriers in the labor market (Portes, 1995). If successful, these entrepreneurs can generate jobs for others as well. Many of their premises serve as local social network melting-points; consequently they are significant component of the social fabric supporting civic society at the grassroots level (Pang & Rath, 2006). They employ extensive networks of identity, family and community resources to obtain business information and inside knowledge of market opportunities. According to Kitching et al. (2009), transnational network structures play important roles on businesses by providing resources and opportunities to ethnic ventures if they are effectively exploited.

### ***Nigerian transnational Entrepreneurship***

Nigerian transnational entrepreneurs in the UK are self-employed due to varieties of reasons with varieties of outcomes for their businesses although they are never reflected in the official statistics as most of them are unregistered. They are obscure as they have not been a subject of systematic research and have remained rather unexplored. Several factors have contributed to this outcome such as the absence of any reliable statistics regarding Nigerians and their businesses in the UK, fear of avoiding authorities due to policies and regulatory obstacles, and the habit of keeping secrets. Transnational entrepreneurship however is of increasing importance as many Nigerians in the UK are becoming transnational entrepreneurs by virtue of setting up and conducting their businesses in dual or multiple environments.

## **Methodology**

The study adopted case studies to research the phenomenon of transnational entrepreneurship among the Nigerian diaspora community in London, and six respondents are selected for the research. Case study approach involves the investigation of a contemporary phenomenon within its real-life perspective, and it’s the device recommended for studying a complex and least explored subject (Yin, 1984). The approach has also been used in many previous entrepreneurial network development studies (e.g. Coviello & Cox, 2006).

### ***Methodology Approach***

Six Nigerian transnational entrepreneurs, primarily based in London, were chosen from six different business sectors that are popular within the community; food retailing, food processing, money transfer, motor (vehicle & parts) export, events & media production, and forwarding & clearing agency. The interviews were arranged in a semi structured, open-ended fashion, and recorded with permission after given the usual guarantees on anonymity. Semi structured interviews consisting of strings of open ended questions based on the research area were obtained during a twelve month-period (October 2010 to September 2011). The open ended nature allows both interviewer and interviewees to deliberate on some topics in more detail. The interviewer used cues or prompts to persuade the interviewees to reflect more on questions or to elaborate on an initial response, and to follow a line of inquiry initiated by the interviewees (Hancock, 2002). The interviews were then transcribed for further analysis, which led to the categorization of different issues that developed from the narratives. The ‘connected narrative’ method (Misler, 1990) is then explored to report the findings. The table below illustrates the data obtained; the performance indicator is subjective as ‘success’ have a tendency to take a more specific perspective based on the individual situation, thus evaluation of success is ‘socially constructed’ (Rath, 2002). It is also the case that research into the Nigerian entrepreneurship network is tricky as they are difficult to penetrate hence orthodox measures of success such as capitalization, gross income, and profit levels are doubtful and capricious (Nwankwo, 2005).

Case studies	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Profile	Male, 45yrs	Female, 62yrs	Female, 45yrs	Male, 55 yrs	Male, 49yrs	Male, 51yrs
Reason for engaging with entrepreneurs hip	Problem in securing employment	Self actualization factors	Freedom to move about	To improve social and economic situation	Frustrated out of paid employment	Respect, and change of environment
Business Type	Motor (vehicle & parts) export	Food retailer (green-grocer)	Forwarding & clearing agency	Food processing	Money transfer agency	Media Production
Previous Experience	No prior business experience	Involved in family business at an earlier age	Marginally engaged in business before emigrating to the UK	Years of previous business experience in Nigeria & UK	No formal business experience	No previous business experience
Educational background	University first degree	GCSE equivalent	University second degree	University second degree	University first degree	University first degree
Character of transnational activities	Involves in buying varieties of used vehicles and complete knock down (CKD) parts for export to Nigeria. Also sell used cars in London. Constantly shuttling between the UK and Nigeria all year round.	Imports most of her wares from Nigeria. She has a network of families and relatives based in Nigeria who send goods to her on a regular basis. She goes to Nigeria at least twice a year.	Sends clients goods and materials to Nigeria. Operates warehouses both in London and Lagos (Nigeria) where customers deliver and collect their goods. Goes to Nigeria as required, but more or less six times a year.	Source key raw materials from Nigeria as input in his food processing factory in the East-end of London. Goes to Nigeria thrice a year on the average.	Has office in South-east of London where customers transfer money to relatives and friends in Nigeria. Also maintains an office unit in Nigeria where the money sent from London is processed through designated banks for recipients. Goes to Nigeria once a year.	Media coverage social events such as weddings, birthday celebrations, conferences, and corporate events. Via film/video and photographic productions. Operates a state of the arts studio in Nigeria. Patronized by Nigerians in the UK to cover events in Nigeria. Spend more time in Nigeria (9 months/year) than London. But immediate family resides in

						London.
<b>Total number of employees</b>	6	4	5	12	3	7
<b>Performance (subjective)</b>	Successful and happy	Fulfillment (emotionally & financially)	Thriving and successful	Flourishing and contentment	Struggling but pleased	Satisfaction and happy

**Table 1: Summary of Characteristics and basic Profiles of Respondents**  
**Conceptual Interpretation**

The evidences accrued, are analyzed from the perspectives of; the individual, the firm, and the environment as suggested by Gartner (1984). The individual characteristics and behaviour interacting with environmental characteristics and firm characteristics affect start-up behaviour of entrepreneurs (Gartner, 1984). These three elements are perceived to affect performance, which is characterised as incorporating sales growth, market share, profitability, overall performance and stakeholder satisfaction.

**The Individual (micro) Level**

The Individual level of analysis comprise of the entrepreneurial attitudinal orientation framework, assessing attitudinal and behavioral orientations. The transnational entrepreneurs are seen as persons who can operate in two worlds; entrenched in social institutions of their home-base (residence) and homeland (origin), exploiting advantage of resources and opportunities that stem from their unique position or affiliation, while transcending essential cultural dichotomies (Aldrich et al., 1989). The entrepreneurial component exists separately of a possible entrepreneur’s ethnic, cultural or religious background, it shapes the quest for entrepreneurial opportunities. Individuals identify and engage opportunities differently. In considering factors that determine individual entrepreneurial orientation, Volery (2007) identifies four factors for consideration: psychological characteristics, information and knowledge, creative processing, and cognitive heuristic. A fifth aspect, personal attribution, is also necessary to give a full rounded analysis.

**Psychological Characteristics**

Features such as the need for achievement, the belief in control over one’s life, and a propensity to take risks, naturally epitomize the typical entrepreneur. Several aspects of psychology like human volition, innovation, organization building, will to power, will to conquer, vision or foresight, etc. influence stream of entrepreneurs (McClelland, 1965). This is supported by a declaration of a respondent:

*“I am exasperated with answering sir to bosses most of whom are nincompoops... I need to be my own boss and direct my own destiny”. (Case 5)*

### ***Information and Knowledge***

The possession of exclusive information and knowledge can inspire an individual to pursue and exploit opportunities in a particular area. In addition, networks and social interactions influence information collection and access to vital resources (Waldinger et al., 1990). Invariably, the level of education and experience, which relates to human capital, influences information and knowledge acquisition. Most of the respondents are well educated as shown on table 1.

### ***Creative Processing***

Thirdly, creative processing shapes the ability to assess an opportunity and convert it into a viable business; this entails unique skills, aptitudes, insights and circumstances, associated with creative dispensation. Also, the dual social contexts in which they operate require transnational entrepreneurs to develop special awareness to the different cultural and knowledge schemas (Giddens, 1984). A pronouncement by one of the respondents exemplifies this:

*“You have to understand the Nigerian business terrain in order to survive. Its ever changing dynamics can confound the uninitiated neophyte”.* (Case 1)

### ***Cognitive Heuristics***

Fourthly, cognitive heuristics - the capability to discover and advance uncomplicated strategies to deal with various problems that inevitably crop up in the daily routine of entrepreneurial process that demand immediate and efficient handling (Schaper and Volery, 2004) is essential. Cognitive heuristics is influenced by power relations; this reflects the entrepreneur's choice of strategy that depends on resources accessible to him/her, either material or symbolic (Lamont, 2000). Professional knowledge and skills (Giddens, 1990), cultural capital (Bourdieu, 1973), and a social position in organizational, communal, and other settings (Drori et al., 2009) are cases in point. These factors can facilitate/limit an entrepreneur range of tool kit, or can bestow cultural tools that increase his/her leeway in negotiation and ability to maneuver business relations and political corollaries in his/her dual settings. In short, cognitive strategies illustrate how the entrepreneurs used particular cognitive strategies to cope with certain demanding aspects of the business enterprise. These consist of making use of certain conflicting roles to cope with specific situations, for instance a respondent declares:

*“You have to constantly think on your feet to deal with situations in Nigeria; as same solution may not apply to similar problem (even in the same situation)”.* (Case 3)

### ***Personal Attribution***

The notion of personal attribution is a concept in social psychology dealing with how individuals explain causes of events, their own and other's behavior. Attributions permit individuals to predict and control their environment (Heider, 1958). The consequences of attributions have an influence on the perceivers' subsequent thoughts, emotions, and behaviors (Harvey & Weary, 1984). According to Heider (1958), people make personal (internal) and situational (external) attributions. The former is explained in terms of personal characteristics/attitudes and the latter in terms of situational factors, for example, the social situation or surrounding environment. These attribution types lead to different perceptions of the individual engaging in a conduct. Heider suggests that individuals constantly or impulsively make causal deductions on why events occur. In time, these deductions develop into beliefs or expectations that allow them to predict and comprehend the events that they observe and experience. The manner in which individuals perceive and grapple with entrepreneurship differs and may be explained by differences in an individual's general tendencies to interpret the causal nature of opportunity. Attributions affect decisions; therefore, attributions should affect business decisions. The claim of the respondent in case 6 is a good illustration:

*“Despite been comfortable living in the UK, I was really fed-up after 32 years. Like every other middle aged Nigerian men in Britain, I crave for the respect that people of my age and status commands in Nigeria. Nigerian culture demands and expects respect for status, accomplishment,*

*and age; unlike in Britain where even your own wife and children have little regard/respect for you. In Nigeria I am treated with honor and respect and I feel alive and a true man in every respect, hence my business repositioning to Nigeria". (Case 6)*

Cooper et al. (1992) illustrate the influence of entrepreneurial attributions by demonstrating that attributions affected venture outcome. They establish that firm survival was considerably shaped by the entrepreneur's personal expectations of success. Entrepreneurs are likely to exit if business performance fell short of a personal threshold, or expected benefits are not realized; since the two key attributions in the field of entrepreneurship are success, and failure.

The five aspects described above define the agency and the entrepreneurial process of recognizing, evaluating and exploiting of opportunities. Hence, the practice of transnational entrepreneurship involves employing diverse repertoires of entrepreneurial behavior and action in everyday life, requiring a wide range of social skills, cultural knowledge, and sensibility (Drori et al., 2009).

### **The Firm (meso) Level**

The Firm level analysis deals with competitive attitude, strategic orientation, and the utilization of networks for information exchange. The effective use of transnational-based networks depends not only on business owners' capabilities and motivations but also on the resources and opportunities available in the transnational structures via their size and locations (geographical and sectoral) (Kitching et al., 2009). At the meso level, emphasis is laid on the transnational dimension of ethnic entrepreneurship. The transnational dimension includes factors only relevant for transnational entrepreneurs. The influence that the transnational dimension wields on transnational entrepreneurship can be extremely diverse. Contingent on the magnitude of the cultural differences between host and home country, the amount of discrimination encountered by the entrepreneur, the degree of social integration of the ethnic group, the experience gained in the new environment, age and gender, and the education level of the entrepreneur (Volery, 2007). It is common for transnational entrepreneurs to set up businesses which are easily portable and allow them to transverse their home-base and homelands. This can be achieved by acquiring skills or assets that can easily be transferred across geographic regions (Volery, 2007). Ordinarily, transnational business typically begins as ethnic entrepreneurship in the country of residence, usually low in innovation; immigrants acquire the skills and capital needed to start an enterprise while being employed (Volery, 2007). Consequently, when the time is right (e.g. after regularizing their documents), and they feel confident about their capabilities, or as a competitive strategy, they embark on establishing or expanding the business to their country of origin. This conventional channel symbolizes entrepreneurial reproduction; that is, the entrepreneurs carry out a familiar activity and attempt to bring added value to their services or products through operational efficiency (Iyer and Shapiro, 1999: 95). However, a number of factors are coalesced in the transnational dimension: Competitive Advantage, Social Capital and Networks, and Knowledge and Technology Transfer.

#### ***Knowledge and Technology Transfer***

Transfers denote the interchange of knowledge and technology through some conduit to individual/organization over time. Faist (2006) asserts that knowledge and technology transfers are types of social remittances transmitted through networks of scientists and experts from developed to developing nations. Transferring knowledge and technology across divergent entities is a daunting and complex process (Williams and Gibson, 1990). Nevertheless, transnationals are strategic channels of technology and business know-how to their countries of origin. In view of cultural and socio-economic connection with their countries of origin, their importation of technologies will be in tune with local realities and cultural sensitivities. As a result, they are more likely to import and employ suitable technologies than foreign investors who may have little experience of doing business in the country (Debass & Ardovino, 2009). A clear example was provided by the respondent in case 4 who adapted British technology to fabricate rugged machinery in aid of his business in Nigeria. He has this to say:

*“Thanks to my knowledge of the state of infrastructure and quality of workmanship in Nigeria, I was able to get round the problems of power and ineptitude of workers by constructing a sorting device for the legume and other seeds I import from Nigeria”. (Case 4)*

### ***Social Capital and Networks Factors***

Social capital concept is useful in transnational entrepreneurship generative processes of discovery, evaluation, and exploitation of business opportunity. Portes (1995: 12) refers to it as the ‘ability of individuals to mobilise’ free scarce resources on demand through their membership in a group or broader social structures. Consequently, as a network, social capital is rooted in social relations that are reproduced in a variety of arrangements used interchangeably by the transnational entrepreneurs when developing their ventures (Drori et al., 2009). Research has suggested that family ties, community ties, and professional and business networks help immigrant entrepreneurs to conduct border-crossing business activities (Chen and Tan, 2009). This is reflected in a respondent statement:

*“The support my business garners from my families (both in London & Lagos) is fundamental to its success. I cannot be in two places at the same time, and without my families involvement I doubt if I’ll remain in business”. (Case 3)*

### ***Competitive Advantage***

Principle of competitive advantage, also known as firm-specific advantage, denotes the unique assets or competencies resulting from cost, size, or innovation strengths that are hard for rivals to imitate without incurring significant cost and uncertainty (Cavusgil et al., 2008). These value creating attributes and resources enable competitive business to outperform other competitors (Chaharbaghi and Lynch, 1999) when strategically implemented. Competitive advantage generally signifies that a venture can produce more business performance than its competitors in the same sector by exploiting its assets and/or competencies. Conceivably competitiveness may be enhanced by the exploitation and exploration of two markets (countries of origin/residence). Smallbone et al. (2007) deduce that some businesses do gain competitive advantage by leveraging transnational networks and Kitching et al. (2009) claim that under certain conditions, transnational-based networks facilitate higher levels of business competitiveness, while easing access to resources and markets by ethnic businesses, especially for those dealing in ethnic goods and services. A respondent’s testimony supports this:

*“I am surviving in the tough UK business environment so far because I was able to put my knowledge of the business terrain in Nigeria to good use in sourcing cheap goods and materials to sell in my shop in London”. (Case 2)*

Knowledge of the culture, language, and market in the home country can bring competitive advantage in transnational practices (Chen & Tan, 2009). Many transnational entrepreneurs employ their cross-border business activities to gain competitive edge or to survive in tightly competitive sectors through access to cheap labor pool in the country of origin. Invariably, by virtue of their distinctive geographical affiliations, transnational entrepreneurs may be in a unique position to exploit opportunities either unnoticed, or unavailable, to entrepreneurs located in a single geographical location (Drori et al., 2009). Transnational lives and entrepreneurship may thus become a strategy of survival and improvement. Hence, competitive advantage when considered in the resource-based framework of social capital and networks, cultural capital, and knowledge transfer can be regarded as rare, valuable resources that are difficult to imitate. Although in certain circumstances, transnational-based networks can restrict business competitiveness (Kitching et al., 2009).

### ***The Environment (Mega) Level***

Analysis at the environment level entails the investigation of turbulence, hostility, complexity, and munificence of the dual environments in which transnational entrepreneurs operate. Transnational entrepreneurship organizations can be said to be open systems which essentially engage in various forms of exchange with their environment (Katz and Kahn, 1966). Not only does organizations are transformed

in the course of interacting with and adjusting to their environment they also change that environment (Baker, 1973). Kotter (1979) believes that since environmental dependency impedes an organization's capability to perform autonomously, it then becomes imperative to manage such dependency for survival. Organizations usually handle environmental dependency by establishing and maintaining resource exchanges with other organizations (Levine and White, 1961). This could be applied to transnational businesses in the two locations. Dexterous handling of the turbulence inherent in the environments could inevitably have positive impact on outcomes. The issues identified as germane at this level of analysis are: institutional context, transnational circulation and networking, and remittances.

### ***Institutional Context***

Transnational entrepreneurs' strategies are impinged on by the diverse institutional environments they operate in. As a result, transnational entrepreneurs have to develop dual capabilities in understanding and operating in multiple institutional environments (Drori et al., 2009). The assumption is that the respective institutional environmental composition may be substantially different in many aspects, and littered with diverse set of challenges to the entrepreneurs. For instance, transnational entrepreneurs need to leverage one country's benevolent industrial policy that may be suitable for foreign direct investment-related activities in accordance with business functions across the other country of interest (Drori et al., 2009). A respondent had this to say:

*"The continuous changes to importation policies (banning and unbanning some goods) constantly interrupt the rhythm and planning of my ventures. For instance, I lost some money when restrictions were placed on the importation of used vehicles by the Nigerian government, and I gained in other instances". (Case 1)*

The institutional perspective plays a major role in shaping modes, operations and performance of transnational entrepreneurs. Generally, institutional contexts can be grouped into developed and emerging (or transition) market economies, with both exhibiting considerable heterogeneity in the rules and regulation for undertaking business. Transnational entrepreneurs can be envisaged to operate between developed economies, between emerging economies, or between developed and emerging economies. Further, their starting point may be either a developed or emerging economy (Wright et al., 2005). These different routes to entrepreneurship are liable to involve different challenges for transnational entrepreneurs. For example, networks and human capital built in one institutional environment may not be suitable for the others into which the entrepreneurs relocate (Drori et al., 2009). National differences in institutional structures represent different modes of transnational entrepreneurship by influencing ownership patterns of firms; business formation and coordination; intra firm management and/or entrepreneurial process; and work and employment relations (Drori et al., 2009:1010).

### ***Transnational Circulation and Networking***

Ethnic immigrants maintain networking with their families, relatives, and friends in their countries of origin, that is, they engage in transnational circulation and networking. Transnational networking denotes the occurrence of a multi-stranded relations process where many immigrants manage a significant part of their social, economic, and cultural lives in their home countries while working, living, and settling in a host country (Basch et al., 1994). It incorporates activities such as receiving or sending financial remittances; the establishment of hometown and ethnic-oriented associations; returns/visits home, either temporarily or permanently; the financial support of and regular communication with families/relatives left behind; the formation of professional and social links in the host and home countries; and the formation of cross-border entrepreneurship and business networks (Foner, 2001). Reliant on relatives and friends network is demonstrated as below:

*"I may not have been able to embark on my ventures if not for the connections I managed to secure through the help of my old school mates and friends in high positions and places in Nigeria". (Case 5)*

Transnational networking activities are integral part of the attempts of ethnic entrepreneurs to adjust to and integrate into the host country (Min, 2005). Such activities enable ethnic entrepreneurs to exploit

different markets rather than limit their businesses to the co-ethnic market (Menziez et al., 2007). Thus, many transnational entrepreneurs demonstrate a dual sense of belonging, dual loyalty, and, in some cases possess dual political citizenship (Faist, 2006). A vivid narrative from a respondent captures the essence of this:

*“Only a bastard is not proud to indicate his/her lineage, as for me I’ll always maintain and strengthen my link with Nigeria through trade and commerce”. (Case 3)*

### **Remittances**

Remittances are private money transfer by expatriates/immigrants abroad to their native countries and they form significant transnational flows that are essential in development programmes. Orzoco reports (2004) that workers’ remittances are the second largest source of external funding for developing countries. Remittances supplement beneficiary households’ income, smoothen consumption, encourage industry; its’ multiplier effects raises productivity. World Bank *Global Economic Prospects 2007* (Ratha and Shaw, 2007: vii) also demonstrates the positive effects of good domestic policies on contributions of immigrants’ remittances to fight against poverty. Transnational entrepreneurs have primordial need for sending or receiving money to and fro both countries of residence and origin. The volatility of the foreign exchange regime can impact acutely on transnational entrepreneurs’ business activities, thus choice of strategy is both shaped by and shapes the remittance framework. Many of the respondents experience this as illustrated by this statement:

*“Most of my profit is eroded by the volatility of the currency exchange regime. More often than not I’m forced to buy unintended goods to sell back in London so as to accommodate the flux”. (Case 1)*

### **Implications and Limitations**

A number of implications can be derived in areas of research and policy. The pertinence of transnational entrepreneurship as a specific category of ethnic entrepreneurship is brought to the fore. Even though both groups exhibit many similarities, further actions such as the formation of professional networks that could aid the transnational activities developed by the transnational immigrants are evident (Urbano et al., 2011). Policy makers’ attention is needed to formulate regulations that enhance the operations of transnational entrepreneurship as this will contribute in many ways to boosting cross-border trade and commerce as well as international friendship between the two countries of entrepreneurial activities.

The findings presented are limited by the focus of the study and the inherent limitations of the case study methodology employed. Further studies are needed to thrash out emergent issues discussed in the paper. So also other issues not mentioned but are of relevance, such as; gender distribution, legal implications, formal & informal sectoral analysis, and so on instruct additional studies.

### **Summary and Conclusions**

The decision to become a transnational entrepreneur is an outcome of a complex decision making process. The rise of contemporary transnational entrepreneurship is contingent as much on favorable mega forces as on meso/micro factors of networks and entrepreneurial resources of individual immigrants. Thus, the conceptual model generated attempts to explain the emergence and growth of transnational entrepreneurship as being related to personal characteristics, firm characteristics as well as market opportunities in dynamic environments. The individual psychological traits at the micro level of transnational entrepreneurship interact with conspicuous opportunity structure and ethnic resources at the meso level enabling immigrants to navigate, establish, maintain, and profit from businesses at dual worlds environment (Mega) of interaction. This duality of space is an essential factor for survival, a means of “breaking out,” and/or a method for providing competitive advantage (Drori et al., 2009). Transnational entrepreneurship connects a number of different characteristics which suggest that their position in the host and home countries is closely linked with the socio-cultural, political, and economic resources at



their disposal. The push/pull dichotomy inherent in these characteristics explains the allure of transnational entrepreneurship. Accordingly, transnational entrepreneurs are able to relate and modify their social structures to changing circumstances and contexts (Sewell, 1992: 20). Obviously, entrepreneurial outcomes; economic success and the entrepreneur's satisfaction, are subjective and determined by the effectiveness of transnational entrepreneur's strategies in harnessing the potentials of the ever increasing complex and dynamic business environments.

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## **Entrepreneurship Education: Influencing Students' Entrepreneurial Intentions.**

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*This study examined the effect of entrepreneurship education programmes on entrepreneurial intentions among university students in Kenya. Ajzen's Theory of Planned Behavior (TPB) was adopted and operationalised to address the formation of Kenyan university students' entrepreneurial intentions through structural equation modeling. A total of 208 usable questionnaires were collected from one public university offering entrepreneurship major. Data was collected using questionnaires and analyzed largely by quantitative methods. The results of the study indicate that Ajzen's model of planned behavior as operationalised in the study successfully predicted entrepreneurial intentions in Kenya whereas exposure and non exposure to entrepreneurship education explains the differences in entrepreneurial intentions among the students. Further, the findings of the study indicated that the students who have exposure to entrepreneurship courses have higher intentions toward entrepreneurship than their counterparts who have no exposure to entrepreneurship courses. The findings of this study are of assistance to students, educators, policy makers as well as practicing entrepreneurs in the understanding of the antecedents (motivators) of entrepreneurship. The study recommends that universities should include entrepreneurship courses in all the degree programs.*

### **Introduction**

The study of entrepreneurship courses in higher education institutions is one of the most interesting and challenging areas of research for universities, governments, and industrial sectors. Entrepreneurial activities and entrepreneurship education are considered crucial to the economic development of nations. These activities are not only the incubators of technological innovation; they provide employment opportunities and increase competitiveness (Turker and Selcuk, 2009). Furthermore, entrepreneurship education is more than just learning about business management. It is a human capital investment to prepare a student to start a new venture through the integration of experience, skills and knowledge to develop and expand business (Hynes and Richardson, 2007; Nabi and Holden, 2008). The expectation that more and better entrepreneurship education would result in more and better entrepreneurs Matlay, (2008) has driven the proliferation of entrepreneurship courses in universities.

Promotion of entrepreneurship within Higher Education Institutions (HEIs) is more likely to increase the interest of the students to choose entrepreneurship as a career where it can raise their attitudes, perceived behavioral control, self efficacy, risk taking and intentions toward entrepreneurship (Wilson, Kickul and Marlino, 2008; Souitaris, Zerbinati, and Al-Laham, 2007). Despite the new emphasis on entrepreneurship education in technical and vocational schools in Sub-Saharan Africa, the literature has largely ignored the phenomenon in HEIs in this region, with the exception of South Africa (Co and Mitchell, 2006). The literature has instead examined the phenomenon in other regions of the world such as Asia and Latin America (Kabongo and Okpara, 2010). Findings from such studies may not be applicable to developing nations such as Kenya. This leaves a gap for this study to examine entrepreneurship courses offered in the universities and determine whether they have an influence on students' entrepreneurial intentions. Furthermore, studies on entrepreneurship show that most of the scholars have focused on adult

entrepreneurs (Anderson and Robertson, 2000). Since people are likely to start a business within the age range of 25 to 35, Reynolds (2005), it is critical to focus on people who are younger than 25 and explore which factors affect their intentions to start up a business in future. As Anderson and Robertson (2000) stated: “. . .the future working environment will depend on the creativity and individuality of the young. However, indeed relatively little is known about young adult views on entrepreneurship” (p.279)

In line with Kenya’s Vision 2030, the number of private and public initiatives to train and educate people to be more entrepreneurial has increased in Kenya. One such initiative is the under graduate degrees with entrepreneurship major offered by universities to respond to the increasing interest from students about entrepreneurial careers and awareness from the public authority on the importance of entrepreneurship to economic development. However, survey of Kenya’s university students by Bwisa, (2004) and studies in other nations by Robertson and Wilkson (2003); Wu and Wu, (2008); Nabi and Holden, (2008) indicate that although conditions for entrepreneurship have much improved than before, the business start-up intent among the graduates is relatively low, and this remains a big research question. Therefore, whether education does or does not influence their entrepreneurial perceptions and intentions require further research (Collins; Hannon and Smith, 2004). Furthermore, many of the efforts used by the government to promote entrepreneurship focus on the financial capital injected in the youth and women based programs such as the Youth Enterprise Fund and the Women Empowerment Fund disbursed by the Ministry of Youth and Ministry of Gender respectively (Oruoch, and Muchiri, 2007). The training intervention at university level has not been given much attention, hence the need for an assessment of entrepreneurship education to determine its influence on university students entrepreneurial intentions. This will guide the entrepreneurship training policy in Kenyan universities.

### **Literature review and Hypotheses Formulation**

There is a general agreement that attitudes towards the entrepreneur, entrepreneurial activity, and its social function are determinant factors for university students to decide an entrepreneurial career (Veciana, Aponte and Urbano, 2005). The exposure to entrepreneurship environment has implication to the development of the attitude and intention. The favourable environments facilitate acceptance and support of intention to become an entrepreneur (Ibrahim, Habshah, and Ooi, 2009). Consequently, the knowledge and skills derived from such an environment leads to perceived behavioral control in entrepreneurship.

Attitude towards entrepreneurship is an important aspect which helps to predict potential entrepreneurial behavior in future where students who have the right attitude toward entrepreneurship will be more inclined to depend on themselves to run their own business after graduation rather than being employed (Fitzsimmons and Douglas, 2005; Kolvereid and Isaken, 2006). For instance, Vij and Ball (2010) established that an entrepreneurship module offered to non business students of Northumbria University was able to boost their self confidence, determination, self-belief, drive to succeed by hard work and acceptance of possible failures. Furthermore, only a few of these students decided that they would rather be in formal employment.

A number of studies have shown that entrepreneurship education programs have a significant positive impact on various proxies for entrepreneurship, including entrepreneurial intentions, the desirability and feasibility of entrepreneurial ventures, and various competencies that are associated with entrepreneurship (Souitaris and A-l-Laham, 2007; Wilson, Kickul and Marlino, 2007; Athayde, 2009). In these impact studies, researchers most often draw on the psychology literature to argue that the “intention” to start up a business is the proxy that best reflects the odds that a person will start a business or not (Souitaris et al. 2007). As a result, the success of entrepreneurship education is measured as a positive change in entrepreneurship as a career choice, and the majority of these studies do in fact show that entrepreneurship education has a positive impact on such intentions (Lepoutre, Berghe, Crijns and Tilleuil, 2010). Based on the above literature, the following hypotheses are formulated:

H1: Entrepreneurship education has a significant positive influence on entrepreneurial intentions of university students.

H2: Entrepreneurship education has a significant positive influence on personal attitudes of university students.

H3: Entrepreneurship education has a significant positive influence on Subjective norms of university students.

H4: Entrepreneurship education has a significant positive influence on perceived behavioral control intentions of university students.

### **Theoretical and Conceptual Framework**

In order to assess the impact of Entrepreneurship Education Programs (EEP) and in particular to define and measure relevant criteria, the study used the theory of planned behavior (TPB), originally presented by Ajzen (1991), which is an extension of the theory of reasoned action (Ajzen and Fishbein, 1980). This theory assumes that human social behavior is reasoned, controlled or planned in the sense that it takes into account the likely consequences of the considered behavior (Ajzen and Fishbein, 2000). It asserts that intention is an accurate predictor of planned behavior, especially in cases where the behavior is difficult to observe, rare, or involves unpredictable lags. Entrepreneurial behavior displays these characteristics, which explains why several empirical studies of entrepreneurship have applied the Theory of Planned Behavior to study entrepreneurship from a psychological perspective (Kolvereid and Isaksen, 2006; Rotefoss and Kolvereid 2005; Krueger, Reilly, and Carsrud 2000; Souitaris et al 2007).

The conceptual model that was used by this study to assess the impact of entrepreneurship education programs on entrepreneurial intentions among university students is in line with TPB and was adapted and modified from that used by Fayolle, Gailly and Lassas-Clerc (2006). The independent variable is the entrepreneurship education programmes/courses offered by universities. These programmes indirectly influence entrepreneurial intention through the antecedent variables that are composed of students' subjective norms, personal attitude towards entrepreneurial behaviour, and perceived behavioural control.

### **Methodology**

This study employed the descriptive approach. This design is suitable for the study as it sought to describe students' perception of their entrepreneurial intentions and how intentions are affected by subjective norms, perceived behavioral control and social norms as impacted by entrepreneurship education programs. A sample of 126 students taking entrepreneurship major (Target Group) and 82 students that had not been exposed to entrepreneurship studies (Control Group) was drawn from Moi University. The sample comprised 62% male and 38% female.

The Entrepreneurial Intention Questionnaire (EIQ) that was used for this study is a modified version of the one used by Linan and Chen (2009) and additional constructs designed by the researcher. The EIQ is a newly developed questionnaire based on the existing theoretical and empirical literature about the application of the theory of planned behavior to entrepreneurship (Linan and Urbano, 2009). Thus, it has been carefully cross-checked with those instruments used by other researchers, such as Kolvereid (1996), Kolvereid and Isaksen (2006), Kickul and Zaper (2000), Krueger et al. (2000) and Veciana et al. (2005). The questionnaire was composed of 21 items A1 to A21 measuring the four constructs of the theory of planned behavior: Entrepreneurial Intention (A4, A6, A9-reversed, A13, A17 and A 19-reversed), Attitude towards the behavior (A2-rev-, A10, A12-reve-, A15 and A18), Perceived behavioral control (A1, A5-rev-, A7, A14, A16-rev-, and A20), Subjective norms (A3, A8, and A11). The questionnaires were administered to the target group and control group students. Target group students were those taking entrepreneurship major, while control group students comprised those that had not been exposed to any course in entrepreneurship education.

## Results and Discussions

Data was analyzed largely using quantitative methods. Descriptive statistics such as frequency distribution and measures of central tendency were useful in data reduction and item analysis. The conceptual framework takes the form of a structural equation model. This model is viewed as a combination of factor and regression or path analysis. Multiple regressions were therefore used in testing the association of variables. The sample comprised 62% male and 38% female. Majority of the respondents were between 20 and 25 years old with a mean age of 22.5 years.

The questionnaire was tested for reliability by using Cronbach Alpha method. Cronbach's coefficient alpha values were generated to determine the internal consistency of the scale used. According to Sekaran (2003), Cronbach alpha is a reliable coefficient that indicates how well the items are positively correlated to one another. The closer Cronbach alpha is to 1, the higher the internal consistency. Cronbach alphas for all the factors were above 0.7 confirming the internal consistency of the constructs. Results are shown in Table 1.1.

**Table 1.1: Cronbach's Alpha for the Variables**

Variables	Cronbach's Alpha	Cronbach's Alpha based on standardised item	Number of Items
Personal Attitude	0.833	0.836	7
Subjective Norm	0.720	0.721	3
Perceived Behavioral Control	0.730	0.840	6
Entrepreneurial Intentions	0.778	0.781	4

### T test for the Differences between Means of the Variables

Table 1.2 shows differences between the means in the variables which enable the interpretation to be made that there is a positive significant difference in the entrepreneurial intentions between the target group and control group students of Moi University. The entrepreneurial intention mean difference from the target group sample is 4.885 which is higher and significant compared to 4.623 of the control group sample. These results support hypothesis H1 in that the students who are exposed to entrepreneurship education are likely to have higher intentions toward entrepreneurship as compared to those who have no exposure to entrepreneurship studies. These findings are consistent with the previous researches. For instance Peterman and Kennedy (2003) found that students participating in a Young Enterprise Scheme reported a significantly higher intention of starting a new business than those who did not participate in the programme. Similarly, Ibrahim, Habshah and Ooi (2009) also report that students exposed to entrepreneurship studies have higher intentions toward entrepreneurship as opposed to those with no exposure. These findings also concur with those reported by Lepoutre et al. (2009) and Souitaris et al. (2007) that entrepreneurship education raises students' entrepreneurial intentions.

According to a survey by Turker and Selcuk (2009), if a university provides adequate instruction and inspiration for entrepreneurship, the possibility of choosing an entrepreneurial career might increase among the youth. The findings of the current study are in agreement with Turker's because Moi university students pursuing entrepreneurship major show higher intentions of entrepreneurship career as opposed to their counterparts that have not taken any course in entrepreneurship education. Franke and Luthje (2004) submit that lack of entrepreneurial education leads to low level of entrepreneurial intentions of students.

On the contrary, Fayolle, Gailly, and Lassas-Clerc (2006) did not find support for their hypothesis that entrepreneurship teaching programs have a positive impact on entrepreneurial intentions. Nevertheless,

they found positive impact on attitudes towards entrepreneurial behavior and perceived behavioral control. The findings from Table 1.2 further indicate that personal attitude and perceived behavioral control for target group students recorded higher mean differences of 5.837 and 6.088 respectively compared to 1.674 and 5.796 for the control group students. These results support hypotheses H1 and H2, that entrepreneurship education programs have a positive significant influence to personal attitude and perceived behavioral control towards entrepreneurship. This is in accordance with Vij and Ball, (2010); Wilson et al. (2007) who reported that exposure to entrepreneurship education had positive impact on perceived behavioral control. Soutaris et al. (2007) confirm a positive impact of entrepreneurship education or programs at universities on perceived attractiveness and perceived feasibility of a new venture initiation.

The higher means in personal attitude for the target group as compared to the control group students suggest that entrepreneurship education has positive influence on personal attitude towards entrepreneurship. These results concur with those of Basu and Virick (2010) who emphasized in their study that those students who had prior entrepreneurship education had a positive attitude towards a career in entrepreneurship compared to those who did not have prior exposure to such programs.

The mean difference for subjective norms for the target group was 2.084, while the control group recorded 1.674 at a significant level of 95 percent (see Table 1.2). These findings show that entrepreneurship education has a positive influence on subjective norm. However the influence is much smaller compared to the other variables discussed earlier. Hypothesis H3 is therefore partly supported.

From the descriptive analysis of both groups, it is stated that PBC has the highest mean difference while SN has the least. These findings infer that exposure to entrepreneurship education and experience is more likely to exert the greatest influence on PBC thereby building more confidence in the students towards entrepreneurial intentions.

**Table 1.2: T-Test for the Difference Between the Means in the Variables: Moi University Target and Control Group.**

	Target Group Students			Control Group Students		
	T	Sig (2-tailed)	Mean Difference	T	Sig (2-tailed)	Mean Difference
Entrepreneurial Intentions	35.113	0.000	4.886	38.345	0.000	4.623
Personal Attitude	49.358	0.000	5.837	17.453	0.000	1.674
Subjective Norms	20.028	0.000	2.085	47.256	0.000	1.852
Perceived Behavioral Control	57.134	0.000	6.088	65.245	0.000	5.796

N=208. P<0.05

### Regression Analysis of the Variables

To examine the contribution of the antecedents of intention in the Theory of Planned Behavior (TBP) model, a regression model was fitted with personal attitude, subjective norm and perceived behavioral control entered in that order for Moi University target group students. The R square value in Table 1.3 indicates that 41.7 percent of the variance in Entrepreneurial Intentions (EI) is explained by the contributions of Personal Attitude (PA), Subjective Norms (SN), and Perceived Behavioral Control (PBC). The adjusted squared was 0.411 (p<0.05). These indicate that close to half of the variation in



entrepreneurial intentions could be explained by the three predictors together in the model implying that the Theory of Planned Behavior can be generally applied to study entrepreneurial intentions in the Kenyan context. According to Linan and Chen (2007), this result is satisfactory, since most previous research using linear models typically explains less than 40 percent.

Further, all the three variables (PA, SN, and PBC) are positively associated with the dependent variable at 0.05 level of statistical significance (see table 1.3). Perceived Behavioral Control (PBC) with a value of 36.8 percent explain the most variance in intention towards entrepreneurship (EI), while Personal Attitude (PA) explains 34.2 percent variance in entrepreneurial intentions and Subjective Norms (SN) which record 25.6 percent explain the least variance in entrepreneurial intentions. These results show that there is statistically a significant relationship between PA, SN, PBC and EI. From the findings, it can be adduced that Entrepreneurship education influences entrepreneurial intentions of students through the three antecedents.

**Table 4.14: Regression Coefficient for Moi University Target Group Students**

Model	Un- standardized Coefficient	Standard Error	Standardized Coefficient	T-test	Significance
Constant	Beta 0.385	0.334	Beta	3.979	0.016
Personal Attitude	0.379	0.066	0.342	6.365	0.000
Subjective Norms	0.306	0.060	0.256	4.608	0.007
Perceived Behavioural Control	0.521	0.075	0.368	6.905	0.000

Predictors: (Constant) Perceived Behavioral Control, Subjective Norms, Personal Attitude  
 Dependent Variable: Entrepreneurial Intentions

**Table: 4.15 Regression Model Summaries for Moi University Target Group**

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	R Square Change	F Change
1	0.646	0.417	0.411	1.32853	0.417	72.168

### Conclusions and Recommendations

The study concludes that entrepreneurship education influences entrepreneurial intentions through the antecedent variables: personal attitude, subjective norms and perceived behavioral control. The target group students from Moi University recorded higher values for the differences between the means in these variables than the control group students. This infers that exposure to entrepreneurship education is likely to exert a higher influence on entrepreneurial intentions of university students. The implication of the findings is that the teaching of entrepreneurship education to university students has a positive bearing in boosting their intentions towards business venture. The positive attitude and perceived behavioral control acquired from exposure to entrepreneurship education programs may enable them to consider pursuing business venture as an alternative career after completing their studies or in their latter years.

From the regression analysis it has been demonstrated that these variables each contribute to the variance in entrepreneurship intention, where perceived behavioral control and personal attitude contribute the most to the variance in the entrepreneurial intentions whereas subjective norm is the least contributor to the intentions toward entrepreneurship. Their total contribution to the variance in entrepreneurial

intentions is 41.7 percent as observed in the R value, confirming the Theory of Planned Behavior as a good fit model for the study of entrepreneurial intentions.

The findings from the study indicated that perceived behavioral control had the highest influence on entrepreneurial intentions. Therefore, university entrepreneurship education and training programs should focus much more on changing perceived behavior control and personal attitude of the students because their effects could be more significant to the process of business creation and to overcome the perceived barriers to entrepreneurship. The Kenya's education system needs to be oriented to emphasize and value entrepreneurship in order to promote an enterprise culture among the students.

Based on the findings, we recommend that universities should expose all the students to more entrepreneurship courses. This will promote the students' choice of entrepreneurship as an alternative career. Not all these students will venture into business. Never the less, entrepreneurial skills acquired may still be useful, because as employees they would practice *intra-preneurship* (internal entrepreneurs). In the current competitive environment, many organizations are looking for innovative employees and one way of replying to this need is to expose university students to entrepreneurship education and training.

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## **Situational Forces in the BDS Market and BDS Providers' Strategic Responses: Empirical Evidence from Kenya**

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*The paper presents situational analysis of the BDS market in Kenya showing how BDS Providers (BDSPs) respond in each situational context. The study was done through the use of grounded theory on eleven BDSPs, four small-scale entrepreneurs and two BDS facilitators in Kenya over twelve months between May 2008 and August 2010. The study established that BDSPs operate under weak regulatory framework which encourages unfair competition alongside donor agencies some of which continue to give free and/or subsidized services. BDSPs respond to the situational contexts in their environments using client, product, price, focus, diversification, and simultaneous competition and collaboration strategies.*

### **Introduction**

Business Development Services (BDS) refers to a wide range of non financial services provided to micro and small enterprises (MSEs) to help them operate efficiently and to grow their businesses. The services include; consultancy, training, counseling, marketing support, provision of technology, policy advocacy, infrastructure and access to finance (Miehlbradt & Mc Vay, 2003). Besides lack of funds, MSEs are frequently hampered in their business growth by non-financial factors such as inadequate business management skills, lack of information and poor market access. BDS can be operational, addressing an enterprise's day-to-day operations, or strategic, addressing medium and long-term issues related to the market access or competitiveness of a business (Altenburg & Stamm, 2004). They may be provided directly or indirectly, as stand alone or as so-called embedded services, and free of charge or at a price. A vibrant BDS sector is a requirement for small enterprise development particularly for African economies where most small enterprises lack effective organization and knowledge of modern management techniques (OECD, 2004).

BDS has two main objectives namely; meeting MSEs' needs with quality services and making these services self sustaining (USAID, 2008). Historically a number of BDS support programs have been initiated to promote small-scale enterprises (SE) in developing countries with little success in terms of outreach, impact or (Caniels & Romijn, 2005). The early BDS programs were viewed as public goods, with providers acting as the agents of governments and the donor community (ibid. 2005). Over time this has changed. The client for BDS is no longer the government or donor agencies but SE clients themselves. BDS came to be viewed as business itself selling the services that MSEs demand at a market price (McVay, 2000).

However, there are obstacles to the immediate success of the business model since field conditions in general do not support its effective implementation. On the demand side, SE clients may not have insight into their needs for BDS. On the supply side, there are only a few quality BDS providers who are able to provide actual benefits to SEs (USAID, 2008). Furthermore, there are distortions on both the demand and

supply side that may prevent the market from functioning efficiently (Altenburg & Stamm, 2004). Despite the obstacles and distortions in developing countries, there are organizations that continue to offer BDS (CDAs, 2001). In Kenya for instance, there are a range of providers offering BDS to small enterprise sector (Havers, 1999). The purpose of this paper was to analyze the situational contexts in which BDSPs in Kenya operate and show how they respond to these forces. Academic research on BDS business is insufficient particularly in developing countries, with agenda being driven mostly by donors. Most donor funded research has focused on how the concept of BDS has evolved over the years (McVay & Miehbradt, 2001; Bear et al, 2003). Furthermore, as Miller and Toulouse (1986) caution, research findings often differ systematically across different groups of firms and under different business environments hence findings in one business environment may not be applicable in another environment.

## **Methodology**

Grounded theory (GT) is an interpretive qualitative research method originally conceived by Glaser and Strauss (1967). GT was chosen because it is not influenced by explicit expectations about what the researcher might find; instead it allows the researcher to make discoveries without a priori knowledge (Jones et al. 2005). GT allows actors to define situations and the definitions to be produced in their natural contexts. BDS market is still evolving with many issues still unresolved.

Sampling was not planned in detail before the start of the field study. The sampling decisions evolved during the research process (Strauss & Corbin, 1990). The study was conducted on eleven BDSPs, four small sale entrepreneurs and two BDS facilitators. Data collection and analysis took twelve months spread between May 2008 and August 2010. First, telephone contacts of some BDS providers were obtained through a managing director of one of the local microfinance institutions. The first few people, who were contacted, provided information that was fuzzy and disconnected. These interviews were used as a pilot study. From these contacts one information rich BDSP who was willing to participate in the interview process was identified and requested to tell her story. This respondent gave contacts of four other BDSPs who were also contacted to participate in the interview process. From these four respondents six other BDSPs were identified.

The initial open ended question posed to the respondents was intended to capture their start-up motives. Some of the answers to this question touched on the situational contexts under which BDSPs were operating. Subsequent questions evolved from these answers and sought to analyze these situational contexts and how BDSPs responded to them. BDSPs were asked to describe the market environment in which they operated; the challenges they encountered in the course of conducting your business and how they were countering them. The answer to this question touched on the nature of competition, on the role of the government and the regulatory framework, the influence of donors, the nature of the BDS products and on the attitudes of the SE clients and the relationship between BDS Providers and their clients and on the relationship among the BDSPs themselves. Subsequently, questions were formulated to capture each of the emerging issues.

BDSPs' responses regarding the situational analysis were triangulated with those of four MSEs entrepreneurs and two BDS facilitators whom they identified. The interviews were allowed to take a natural course. However, during the interviews the researcher focused, refocused the interviews and probed based on the emerging issues. The interviews were voice taped using a digital voice. After the field interview, the voice tape was transferred to the PC and later transcribed. A total of 27 interviews were done with the longest taking two and half hours and the shortest one hour.

Data collection, coding and analysis occurred immediately, concurrently and throughout (Glaser & Strauss, 1967). Coding consists of naming and categorizing data. It is an analytical process through which "data are fractured, conceptualized and integrated to form theory" (Strauss & Corbin, 1998). The study

used the following levels of coding: open, axial, and selective coding (Glaser & Strauss, 1967). Open coding process involved looking at the transcribed tapes, paragraph by paragraph together with the field notes for meanings, similarities and differences (Strauss & Corbin, 1990). The open coding process generated a large number of incidents (*see table 1*). Constant comparison and theoretical sampling process reduced the number of concepts to relatively fewer and higher concepts called sub categories and eventually categories (Assad, 2001). During the axial coding process, incidents from open coding were analyzed and compared with new insights that emerged from additional data collection by looking at the categories and relating them to their sub-categories in order to form more precise explanations about the emerging phenomena. Two of categories that emerged that related to the situational contexts were *situational forces* and *BDSPs strategic response*.

Selective coding process sought interrelationships between the emerging categories and in this case between situational forces and BDSPs' strategic response. Selective coding requires selection of a core category (Strauss & Corbin, 1990). A core category is a central phenomenon which results from the axial coding process. All other categories (concepts) must be related in some way either directly or indirectly to the core category (Strauss & Corbin, 1990). BDSPs' strategic response' was chosen from the emerging phenomena as the core category and positioned at the centre of the process being explored. All other categories were related to it.

## **Findings**

The study revealed that BDSPs face a number of challenges in their environments and; that they respond to different situational contexts using different approaches. The challenges were conceptualized as 'Situational Forces' while the approaches were conceptualized as 'Strategic Response'. The 'Situational Forces' were unfair competition, weak regulatory framework, intangible nature of BDS products, presence of donors and characteristics of MSE entrepreneurs. These are discussed below:

### ***Regulatory Framework***

Regulatory framework in the BDS market was described by BDSPs largely as weak. BDSPs mentioned that because there were no standards in the market anybody could venture into the industry. One BDSP explained that; "Some of these quark consultants are charging low prices and giving substandard services. Some BDSPs mentioned that they had been conned by fellow service providers while others mentioned they did not get paid for services rendered on credit either to fellow service providers and/or to clients. They explained that because of weak regulatory framework, legal redress was too time consuming and too costly and so many did not seek legal redress. These negative experiences appeared to influence the relationships between BDSPs and their clients and among themselves. For instance, one BDSP explained: "Sometimes I subcontract consultants to do specific assignments or whenever I have so much work that I cannot handle. But this is purely on a short term basis since I do not know the quality of their work".

BDSPs felt that the weak regulatory framework was impacting negatively on the sector. Some of BDSPs have taken a proactive role to address some of the regulatory weaknesses. Some BDSPs have initiated lobby groups which they believed would drive the BDS policy agenda forward. The study established that there were some BDSPs who were actively involved in pushing this agenda forward. For instance, one BDSP explained: "there is a lot of lobbying going on and I am the chairman of the pioneer group". Another explained; "We have started a lobby group and I have facilitated some of the workshops". Regarding the role of the government, some BDSPs felt that the government was either doing nothing or doing too little to address the challenges in the sector. As one BDSP put; "the hand of the government is very far away". Another explained; "the government does not even understand what is happening in the sector".

### ***Competition***

BDSPs described competition in the sector as largely unfair. The nature of competition seemed to be shaped by the regulatory framework; and MSE entrepreneurs' level of awareness. BDSPs explained that weak or lack of regulation meant that anybody could venture into the sector. One BDSP explained; "Because there are no standards in the industry, there are very many quark consultants who are charging low prices and giving substandard products. This is spoiling the image of the whole industry".

BDSPs felt that lack of control in terms of who should provide BDS was giving bad image to the sector. Unfair competition meant that those who were doing genuine business found it very hard to survive. It encouraged unscrupulous consultants to thrive through unfair means. Another respondent added; the problem is exacerbated by the fact that many MSE entrepreneurs are ignorant about quality and so are easily cheated; many small scale entrepreneurs cannot differentiate low quality from high quality services". Another BDSPs also added; "Many SE clients are very sensitive to price- for many SE clients the cheaper the better". The ignorance and price sensitivity of SE clients make them very susceptible to unscrupulous consultants.

### ***Presence of Donor Agencies***

The presence of the donors in the market appeared to have both negative and positive impacts. On the positive side some BDSPs explained that they had benefited either directly or indirectly from donors. For example, some had attended trainings that were either fully or partially funded by donors. Others had launched their products in the market with donor support. On the negative side, most BDSPs felt the presence of donors was distorting the market hence making it difficult for BDS business to be commercially sustainable. They attributed the SE entrepreneurs' unwillingness to pay for services largely to free or subsidized services by donors. They explained that in an effort to encourage SE entrepreneurs to use BDS, donors created a culture of dependency by paying everything for them to access training. BDSPs felt this culture of dependency was so deeply rooted in the minds of some MSE entrepreneurs and that it had to be changed if BDS was to be sold successfully on a commercial basis. One BDSP explained; "as long as somebody is giving free services, entrepreneurs will not be willing to pay. In fact when you are asking them for payment they wonder where you are coming from". It was established that some donors were still in the market although some were beginning to exit.

### **Nature of BDS products**

The nature of BDS product was conceptualized into a dichotomy of 'more difficult' to sell' and easier' to sell. The product exhibited the following dichotomies: intangible vs. tangible; statutory vs. non statutory; single service vs. package; and those having immediate returns vs. long term returns. These dichotomies seemed to influence clients' willingness to pay for services. For example, one BDSP explained: "The greatest challenge in selling BDS is that it is intangible; yet clients need to see value for them to be willing to pay for the services". Different BDSPs use different strategies to make entrepreneurs see value in their services. One BDSP explained; "By negotiating for our clients higher prices for their products and assuring them (clients) of a steady market, we are able to demonstrate value to our clients. Because of this we have no problem selling our services". Another BDSP explained: "My strategy was to initially charge very little and even occasionally give free services because I believed that once the entrepreneurs experienced my services; they would begin to see value and would not only buy the product but also sell for me-advertise my services: the 'effect of word of mouth advertising'".

BDSPs explained that selling intangible BDS was more difficult because it required clients' trust in the provider. Different providers used different strategies to build trust and customer loyalty. One BDSP who provides market linkage to small holder farmers explained; "We have earned client loyalty by making them own the process. We have employed field officers who stay among the clients who are farmers; this enables them (officers) to live the experiences of our clients". "Being in constant touch with my clients has enabled me to build close relationship with them. It has also enabled me to appreciate what they want.



I have come to realize that most entrepreneurs want practical solutions to the problems they are facing”. This suggests that establishing a close relationship with clients may make it possible for them (clients) to develop trust in the provider. But trust is built through a process and it takes time and effort.

BDSPs mentioned that they had no problem selling statutory or services required by law like compiling tax returns or preparing books of accounts; and that clients were more willing to pay for such services. One BDSP explained; “Most SE entrepreneurs will pay you to compile tax returns because they know these are required by law or to prepare their books of accounts for them because the banks need them when they are applying for a loan but the same entrepreneur will not be willing to pay for training”. Another BDSP explained; “Clients’ willingness to pay for the services also depends on whether BDS is provided as a single product only or as a package. The respondent explained that; “many providers are forced to offer BDS as a package or bundle because many small scale entrepreneurs cannot afford to pay for single services. You see for many small entrepreneurs many things are going wrong; their tax returns, their books of accounts, they have a problem marketing their products, accessing funds etc and they want someone who can fix for them all these problems and they pay one price. So if you specialize; you lose out because they would not afford”.

### **The Type of Clients**

BDSPs perceived SE clients as largely unaware of and/or ignorant of the benefits of BDS because many had not experienced it. They also felt many SE clients were unwilling to pay for the services because they had been encouraged by donors who paid for them everything for them to access training. This created a culture of dependency among SE clients which has stuck with them. One BDSP added that: “The challenge of selling BDS is even bigger if you are dealing with women entrepreneurs”. Some BDSPs attribute SE entrepreneurs’ unwillingness to pay for the services to be partly an African culture. One BDSP explained; “We have not developed a culture of taking charge of our own existence even when we can afford it”. BDSPs also seem to think that SE clients suffer from what they (BDSPs) described as self deception i.e. that many SE clients think they know. This self deception appeared to prevent SE entrepreneurs from benefiting from the services. One BDSP explained: “Some SE clients even tell you ‘I have been doing this business for a long time so what are you coming to tell me’”. Another added; “Many SE entrepreneurs do not appreciate professionalism; they want to do business *kienyeji* (a Swahili word for local; traditional or unprofessional).

BDSPs also explained that many SE clients were very price sensitive. One BDSP explained; “the types of clients we are dealing with are very sensitive to price and so if they find somebody who can give them the 'same' service at a lower price they will not hesitate to move because for such clients the cheaper the better”. Another BDSP added: “Many entrepreneurs cannot differentiate low quality from high quality services. Some of the small scale entrepreneurs face serious resource constraints and so their priority is making quick cash hence are not willing to purchase BDS with long term returns”. BDSPs’ responses were triangulated with those of MSE entrepreneurs’. The following statements from MSE entrepreneurs illustrate these:

One MSE entrepreneur, a director of a private primary school explained how she benefited from the BDS training: “I came to know this BDS provider through a friend of mine. When this guy came to the school to help me compile my tax returns, he heard the way I was shouting at my employees. He told me, mum I can show you how you can handle your employees. After I went through the training, I came to realize that I had been the enemy of my own business. There has been a big improvement in my business since then. Before I was trained I used to making money in thousands, now I am banking money in millions”. This statement suggests the respondent’s appreciation of the training and her ability to link her success to the training she received. Another respondent, a sole trader of carpentry and joinery business explained; “Before I received training, I did not know how to keep records and I did not think it was important. The

training taught me how to keep records .I came to realize that I was using so much money for my personal expense at the expense of the growth of my business”. “I also liked the way the training was organized. It came at intervals, and so it was like a refresher course for me. I have seen a lot of improvement in my business”.

Regarding ability to pay for the services the study established that indeed some SE entrepreneurs are facing resource constraints which compromise their ability to pay for the services. The respondent who was in the carpentry and joinery business explained: “I would be willing to pay for the services because they (BDS) are very important. However right now my business is facing a lot of financial problems and so it may be difficult for me to pay. When my business was doing well I did not have a problem paying”.

### **BDSPs’ Strategic Response to the Situational Forces**

In response to the aforementioned situational forces, BDSPs use the following strategies: client; product; differentiation; price; simultaneous competition and strategic alliance or collaboration; diversification; and leveraging on donor support. The responses were conceptualized as ‘strategic’ because they seemed to be closely related to the specific situational context. The strategic responses of BDSPs are explained below:

**Self Regulation:** Some BDSPs explained they initiated self regulation because they felt the regulatory framework was too weak and that the government was not doing enough in the sector. One BDSP explained: “the hand of the government is very far away from the sector. In any case the government hardly understands what goes on in the sector”. Self regulation was also initiated as a way of countering unfair competition in the industry which was largely attributed to the weak regulatory framework. The aim of self regulation was to shape the conduct of business e.g. regulate who ventures into the industry; as well as the quality of the services being offered.

**Collaborations:** Some BDSPs explained that some of the challenges they were facing in the sector could not be solved by one provider. Some of the challenges that necessitated collaboration were regulatory weaknesses and clients’ willingness to pay and unscrupulous providers. Collaborations were initiated and maintained at two levels namely; at individual level between BDSPs and at the industry level which involved many BDSPs coming together to form lobby groups and/or associations. The degree of individual involvement differed from one BDSP to another. While some BDSPs were actively involved others were not. One BDSP who was involved in collaborations explained; “I have even facilitated some of the SME workshops”. On the other a provider who was involved explained; “I am not aware of any kind of collaborations between consultants in the industry”.

The nature and strength of collaborations seemed to be influenced by BDSPs’ past experience conceptualized as negative or positive. The nature of alliances and collaborations were described as temporary or permanent. One BDSP explained: “I rely on a pool of consultants to get work during bad times when jobs are not forth coming. I also subcontract them to do specific assignments or whenever I have so much work that I cannot handle. But this is purely on a short term basis since I do not know the quality of their work. These associates also give me work during bad times when no assignments are forthcoming”. Another BDSP explained: “I have been conned by associates in the past and so I am very cautious whenever I enter into any kind of association.

**Price Strategy:** Price strategy was used by different BDSPs in different circumstances. Some use price as a start-up strategy (charging low prices until entrepreneurs begin to see and appreciate BDS); other use it as differentiation and as a focus strategy. One BDSP explained; “Initially I was charging very low prices to allow clients to experience and develop interest in the product”. Another BDSP explained how they use pricing strategy. “When we started, we had intended to start small. However, we did not start small. We

realized that we had carried ‘everybody’ and so we decided to cut off some of these micro-entrepreneurs who are notorious for not paying for services. We raise our prices and we only remained with few serious clients, we formed business clubs and so we able to add value to them”.

**Diversification Strategy:** One BDSP explained what motivated her to diversify her services. “When I started I was offering what I call the traditional HR services like recruitment, staff motivation etc. because this is where I thought I had the strength. I did not want to compete where I knew I would not succeed. But I was forced to relook at my approach to business because I realized that my initial strategy of offering only HR services could not work. I had to diversify and look at BDS in its totality in terms of what value addition I could give to entrepreneurs especially start ups. I started offering none HR services. I had to do this in order to survive”.

**Client Strategy:** In an effort to appreciate what their clients’ needs really are, some BDSPs have initiated close relationships with their clients. One BDSP who was offering market linkages to small holder farmers explained: “We have employed field officers who live among the farmers (our clients). Thus our officers live the experiences of the farmers. This has made the farmers to own the process. It has made them identify with us”: This suggests that staying close to clients not only make clients own the process but also enables providers to serve their clients better. Another BDSP explained: “We formed business clubs. We are now meeting more regularly and so we are able to pay more attention to the needs of our clients”.

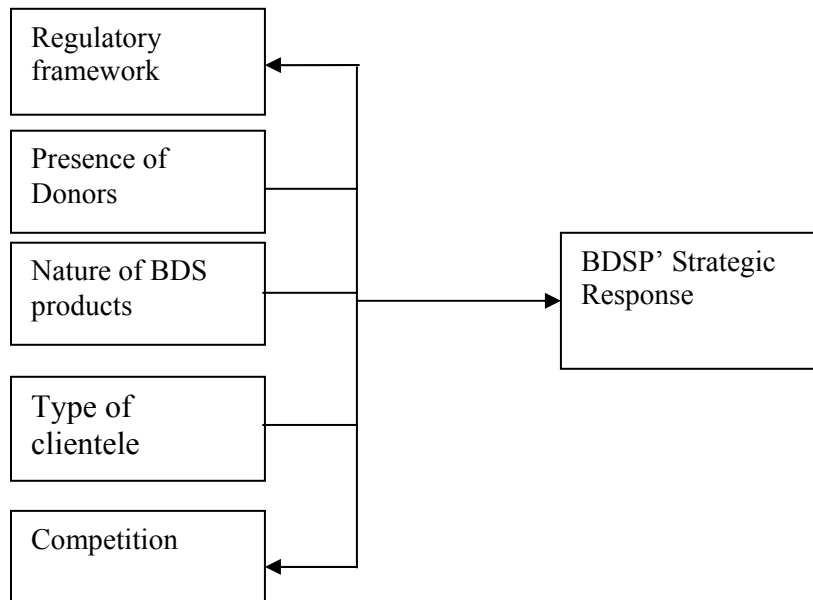
**Leveraging on Donor Support:** Some BDSPs were using donor subsidy as way of leveraging themselves; some used donor subsidy to cover some of their overheads (irrespective of whether their businesses were financially viable or not). As one respondent explained; “I have discovered that many providers are using donor agencies to cover some of their costs. Some providers use donor support when they are launching new products and/or to cover part of their trainings costs. This is what I intend to do as I nurture the market”. However, even BDSPs who have benefited from donor support seemed to consider donor support a temporary strategy. Asked whether provision of BDS should be subsidized or not; their responses seemed to suggest that BDS should not be subsidized. As one BDSP explained; “If BDS is adding value to the entrepreneurs, they should be able to pay for the services.

**Product Strategy:** In response to the clients’ needs, product strategy was used in a variety of ways. One BDSP explained: “The reason why some consultants fail to make it is that they are trying to sell what they have not what clients want”. This underscores the need to provide products that meet the needs of the market. Another BDSP explained: “staying close to my clients enabled me to appreciate what they want. I came to realize that many small scale entrepreneurs want practical solutions to the problems they face. This realization made redesign my products. I started to look at my services in terms of what value addition I could make”. Some BDSPs try to differentiate their products so that they could have a competitive edge over their competitors.

The relationship between situational forces and BDSPs strategic responses are summarized in table 2 and presented in figure 1 below:

**Table 1: Situational Forces and BDSPs' Responses**

<b>Situational force</b>	<b>Strategic response</b>	<b>Description of the Response</b>
<ul style="list-style-type: none"> <li>Lack of awareness</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Strategy;</li> <li>Price strategy;</li> <li>Client strategy</li> </ul>	<ul style="list-style-type: none"> <li>Partnering with other organizations in the environment;</li> <li>Running awareness workshops; give free services occasionally to allow SE clients time to experience services;</li> <li>Charging very low services as a temporary strategy to give SE clients time;</li> <li>Using word of mouth by clients who have experienced the services to advertise services.</li> </ul>
<ul style="list-style-type: none"> <li>Type of clientele: unaware of the benefits of BDS; price sensitive; lack professionalism ; under self deception; face resource constraints</li> </ul>	<ul style="list-style-type: none"> <li>Price strategy,</li> <li>Client strategy</li> <li>Price strategy;</li> <li>Leveraging on donor strategy</li> <li>Empowering clientele</li> </ul>	<ul style="list-style-type: none"> <li>Building close relationship with clients;</li> <li>Using already successful clients who had been trained as show case make clients own the process;</li> <li>Occasionally giving free services;</li> <li>charging low prices temporarily;</li> <li>Leverage on donor subsidies;</li> <li>Initiating savings and lending groups for SE entrepreneurs.</li> </ul>
<ul style="list-style-type: none"> <li>Weak of regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Strategy;</li> <li>self regulation</li> </ul>	<ul style="list-style-type: none"> <li>Forming lobby groups to champion self regulation and regulation in the industry;</li> <li>Forming partnerships with existing consultants;</li> <li>Forming very short term contracts with existing consultants</li> </ul>
Negative perception of BDS	Product strategy Price strategy Client strategy	<ul style="list-style-type: none"> <li>Demystifying the concept of BDS;</li> <li>Setting high professional standards;</li> <li>Charging affordable prices;</li> <li>Forming close relationships with clients;</li> </ul>
<ul style="list-style-type: none"> <li>Unfair Competition</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration Strategy;</li> <li>Price strategy;</li> <li>Product strategy;</li> <li>Client strategy;</li> <li>Differentiation strategy</li> </ul>	<ul style="list-style-type: none"> <li>Forming strategic alliance;</li> <li>Forming a pool of consultants to bid for jobs together;</li> <li>forming reference alliances; Building partnerships to take advantage of market opportunities;</li> <li>Differentiating the products;</li> <li>Offering higher quality products;</li> <li>Building niche markets from the scratch</li> </ul>
<ul style="list-style-type: none"> <li>Intrinsic and/or intangible nature of BDS</li> </ul>	<ul style="list-style-type: none"> <li>Client Strategy;</li> <li>Product strategy</li> </ul>	<ul style="list-style-type: none"> <li>Using trained clients as show case;</li> <li>Providing services that add value to clients;</li> <li>Differentiating the products;</li> <li>Offering higher quality products;</li> <li>Building mutual relationship with clients;</li> <li>Making clients own the process</li> </ul>
<ul style="list-style-type: none"> <li>Presence of donor agencies</li> </ul>	<ul style="list-style-type: none"> <li>Price Strategy;</li> <li>Product strategy;</li> </ul>	<ul style="list-style-type: none"> <li>Leveraging on donor support to cover some of the costs;</li> <li>Charging low prices to differentiate themselves;</li> <li>Using donor support to launch new products;</li> <li>Redesigning the products</li> </ul>



**Figure 1: Relationship between BDSPs' Strategic response and situational forces**

### Discussion of Findings

Different studies have established a relationship between strategic response and different dimensions of the situational forces e.g. between strategy and competition (Peng & Bourne, 2009) strategy and regulation (Barnet & King, 2008). However, the relationship between strategy the nature of the product and between strategy and the presence of donors has not been established the extant literature. Furthermore, the bidirectional relationship between some strategic response and some situational forces (e.g. competition; nature of products and regulation) has not been established in the extant literature. Simultaneous strategic alliance and competition between BDSPs is similar to Peng and Bourne's (2009) coopetition strategy. However, unlike in their case, where strategic is structured, strategic alliances and collaboration between BDSPs seemed appears to be a loosely defined and appears to take place under conditions of low level of uncertainty and trust among the individual BDSPs.

The study also showed that BDSPs change their strategies in response to the changing situational contexts. This is similar to what Sarasvathy (2001) defined as effectual strategy where entrepreneurs ventured into the market with no specific goals or strategic plans but allowed strategy to emerge as they took the products to the market and as they interacted with the customers. However, unlike in Sarasvathy's study, the current study showed that some BDSPs ventured into the market with specific strategic plans and only changed their strategies when they realized that they were not working.

There are extensive studies on firm strategy each having a different focus. Miles and Snow (1978) developed a comprehensive framework that addresses the alternative ways organizations define and approach their product-market domains and construct structures and processes to achieve success in those domains. Porter (1980) classified the competitive advantage sources into two principal categories: cost leadership and differentiation. To be successful, differentiation strategies require that a company distinguishes itself from its competitors along a dimension which is valued by customers (Porter, 1985). This requires an in-depth understanding of the nature of the organization's clientele and their preferences (ibid, 1985). The current study established that the characteristics of the clients influence the strategies that BDSPs adopt.

Kickul and Gundry (2002) also demonstrated that the small owners' proactive personality is linked to their strategic response that permits flexibility and change in response to surrounding business conditions. They showed that strategic response also influences the types of innovations developed and implemented within the internal and external framework of the small business environment. The current study showed that BDSPs' strategies were not static but rather changed as the market conditions changed. The study further showed that some BDSPs were flexible; adopting a trial and error strategy. Some designed a product and if it did not work they redesigned it.

## Conclusions and Implications

The study shows that BDSPs operate in a difficult environment, providing a service that is highly unappreciated by the recipients. In addition, BDSPs attributed the 'culture of dependency' of the MSE entrepreneurs and their unwillingness to pay for services to the way BDS concept was developed by the donors. The study established that the continued presence of donors in the market reinforces the MSE entrepreneurs' unwillingness to pay for services. Some BDSPs believe that MSE entrepreneurs suffer from what they (BDSPs) referred to as self deception and generally lacked professionalism in the way they run their businesses. MSE entrepreneurs' resource constraints and their lack of awareness (or ignorance) about the benefits of BDS all work to shape the general environment under which BDSPs conduct their business. The study showed how BDSPs respond to each of these unique factors in the market. The study adds to the existing relationship between strategy and presence of donors and the nature of BDS products and a bidirectional relationship between strategy and regulation. The study shows the need for partnership between policy makers and BDSPs to address the regulatory weaknesses in the sector. The fact that some BDSPs have already initiated self regulation process is a good starting point for this kind of partnership. The study reveals a paradoxical role of donor agencies in the BDS market. The study shows that the presence of donor agencies distorts the market making it difficult for BDS business to be commercially sustainable. This suggests a need for donor agencies to review their terms of engagement in the sector.

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## **Organizational climate and performance: A case study of high growth Nigerian SMEs.**

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*There has been a lot of investigation into the poor performance of Nigerian SMEs but such academic pursuits have been focusing on organisational macro factors (exogenous factors) such as governmental policies, economic situation of the host country, lack of social amenities, lack of funding etc. This research aim to spot light on the impact of internal factors (endogenous) of the organisation as a potent predictor of organisation's performance by utilising the organisational climate (OC) lenses. This paper identifies the impact of external and internal environment of an organisation on its performance and provides explicit discussion on the impact of organisational climate, climate formation conclude by specifically presenting the different roles of OC in the performance of Nigerian SMEs, as an independent, dependent or moderating variable.*

### **Introduction**

This research investigates the mediating impacts of organisational climate on the performance of high-growth SMEs, using Nigeria as a contextual base. In recent times, much effort has been devoted to organisational performance by researchers and academics (Burton et al., 2004; Ittner and Larcker, 2003; Hudson et al., 2001), but a large proportion of such research has been to investigate factors that affect organisational performance in relation to the balance sheet of the organisation involved (profit and loss). Moreover, these scholarly researches in their entirety have largely drawn on SMEs within the very defined and stable economic, political and internal structures of Western environment (Hudson et al., 2001; Lui & Beamish., 2001; Peel & Bridge., 2002; Blackman, 2004). A gap therefore, exists in relation to underdeveloped countries in general and Africa, in particular. This research seeks to unpack the impact of both internal and external factors on Nigerian high growth SMEs, particularly amplifying the impact of organisational climate on performance.

The overarching aim is to be able to identify and characterise the stock of SMEs that are most likely to impact, more vigorously than the norm, their operating environments and, consequently, drive forward economic growth potentials (at both organisational and national levels). Interests in this category of SMEs have recently heightened because of their dynamic capabilities for growth and sustainability in the face of adverse and severely constrained operating/environmental conditions. Arguably, for developing countries such as Nigeria, policy thrusts towards this sort of SMEs could potentially accelerate the rate of economic growth and integration into the global economy.

For quite some time, there has been a sustained policy attention to encouraging business start-ups as a way to improve economic growth opportunities, both in developed and developing economies (Rabiei, 2011; Hussain et al 2011; Valliere 2009; Gries and Naude 2009). In this regard, there has been a tremendous growth in the body of entrepreneurship literature exploring the relationship between entrepreneurial growth and economic development (Acs, Z. 2006; Wennekers and Thurik,1999) Although the link between economic growth and entrepreneurial growth has become empirically stable over time (Carree and Thurik,2002; McCormick, 2010; OECD 1998:11–12), recent works are beginning to re-classify entrepreneurial firms in the degree to which they impact individual, organisational and national growth potentials (Carree and Thurik, 2002).



Based on the current state of knowledge, the greatest impact of SMEs on economic growth is not so much determined by the aggregate stock of SMEs but their quality in terms of growth-enhancing capabilities (Welford and Gouldson, 1993; World Economic Forum, 2009). Consequently, there has arisen an urgent need to identify this genre of SMEs, understand how they form, organise, their internal dynamics, boundary-spanning capabilities and how they negotiate their operating environments to achieve superior competitive positions (Banham, 2010). The need to pursue this angle of research is even more urgent for developing countries most of which are under severe pressures for economic turnarounds, hence the use of Nigeria (the most populous black nation on earth) as a contextual base.

## **Contextual background**

Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries (Aremu & Adeyemi 2011). They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Harris and Gibson, 2006; Sauser, 2005; van Eeden, Viviers and Venter, 2004; Arinaitwe, 2002; Kiggundu, 2002; Yusuf and Schindehutte, 2000; Monk, 2000; Goedhuys and Sleuwaegen, 2000). Therefore, promotion of such enterprises in developing economies like Nigeria is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development employment and a host of other positive, economic uplifting factors (Aremu 2004). Moreover, in a country like Nigeria with an adverse Balance of Payment situation, the growing contribution of the Small Scale Industries sector in Nigeria's export portfolio goes a long way in generating foreign exchange and smoothening out the adverse Balance of payment situation. Aremu (2004) posited that Small Scale enterprises play an important role in the economics of any country in accordance with their relative levels of development. He further emphasized that Poverty is a worldwide phenomenon and its incidence in Nigeria had been high and on the increase since 1980. This position is in line with (Adeyemi and Badmus, 2001; Schmitz 1982), they also argued that adequate financing of small and medium scale enterprises will reduce the unemployment level in Nigeria.

Several studies have confirmed that small and medium scale enterprises are pivotal instrument of economic growth and development either in developed or developing economies. (Ogujiuba; et. al 2004, Onugu;2005, Ihua; 2009) Data from the federal office of statistics in Nigeria affirmed this importance when it reveal that about 97percent of the entire enterprises in the country are SMEs and they employed an average of 50% of the working population as well as contributing to 50 percent of the country industrial output.

SMEs in Nigeria are not only catalyst of economic growth and development, but are also the bedrock of the nation( Ariyo 1999; Ihua 2009). Although small business activities had existed since the period of independence in Nigeria, conscious effort on small and medium scale enterprise as instrument of economic and national development started in 1970-1979 when Nigeria adopted the policy of indigenization through its national development plan programme. The development plan articulated the need for the Nigerian economy to be self reliant through industrialization, entrepreneurial development employment generation and development through increasing export trade. (NDP,1970) The federal government singled out small and medium scale enterprises as the key area of intervention. This was premised on the government desire of giving support to small scale industries in the country as a measure of meeting up with its commitment to the development plan and the indigenization policy

The Nigerian government in its intervention efforts promulgated different regulation for the purpose of protecting the small scale industries. Some of the regulations include Nigeria Enterprises Promotion No. 3 of 1977, Patent Right and Design Act No 60 of 1979 Custom Duties (dumped and subsidized goods Act No. 9 of 1959, Industrial Promotions act No. 40 of 1979, Industrial development Tax Act No. 2 of 1971

among others (Alawe, 2004). Apart from the promulgated act, government supported SMEs through favourable investment policies, institutional and fiscal policies, protective business law and financial incentives to encourage the national development and indigenization policy which small and medium scale are very central to. Several micro lending institutions were established to enhance the capacity and development of small and medium scale enterprises, and the liberalization of the banking sector to enhance the banking institutions for effective participation in the growth and capacity building of small and medium scale enterprises (Ogujiuba; et. al 2004). Government also established Raw Materials and Research Development Council (RMRDC) of finance and research institutions in 2001, and created some polytechnics and university to provide manpower scheme and also set up some manpower training institutions. Such as Centre for Management Studies, (CMD) Administrative Staff College of Nigeria (ASCON) Industrial Training Institute (ITI) etc. (Ogechukwu; 2006).

In addition to this, the government, through the bankers' forum at the initiative of CBN as an interventionist strategy also established small and medium industry equity investment scheme (SMIEIS) in 2001. This scheme requires bank to set aside 10 percent of their profit before tax to fund SME in an equity participation framework. In 2002, government further intervened to enhance the capacity of SMEs through direct policy as consisting of direct investment and the establishment of more SMEs, promotion institution agencies (technological development institutions, credit lending institutions, technical and management institutions and the provisioning of infrastructures such as industrial estate, nationalization of foreign firms and provision of incentives and subsidies for the promotion of small and medium scale companies (Alawe 2004).

Findings have shown that most SMEs particularly in Nigeria die within their first five years of existence (Onugu 2005). It was also revealed that smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent of young companies survive, thrive and grow to maturity. Many factors have been identified as likely contributing factors to the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies (water, roads etc), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, and cut-throat competition (Onugu 2005).

In spite of the participation and effort of the government in developing SMEs, the contribution index of manufacturing to GDP was 7% in 1970-1979 (Odedokun, 1981). In 2004, a survey conducted by manufacturer association of Nigeria revealed that only about 10percent of industries run by its members are fully operational. Similarly Joshua (2008) contends that about 70percent of the small and medium scale enterprises in Nigeria are between operational or on the verge of folding-up, while the remaining 30 percent operate on low level capacity and are vulnerable to folding up in the nearest future. In 2009, the constraint was further compounded by a sharp drop of manufacturing to GDP of 4.19 percent while industrial capacity utilization dropped to 48.8percent. (National Bureau of Statistics, 2009). This portends danger for the Nigeria economy given the fact that manufacturing industries are critical agent of real growth and development for the country.

Despite the incentives, favourable policies and regulations and preferential support by government aimed at improving small and medium scale enterprises, SMEs have performed below expectation in Nigeria. While the challenges associated to small and medium scale enterprises and their failure has been widely acclaimed. Some of these include lack of planning, inimical government regulations, poor marketing strategies, lack of technical know-how, and lack of capital (Aftab and Rahim 1989, Ekpeyong 1983, Onugu 2005, Ogechukwu 2006). Yet some of the challenges of the SMEs are induced by the operating

environment (government policy, globalization effects, financial institutions etc) others are functions of the nature and character of SMEs themselves. (Onugu, 2005)

SMEs input to national development and growth are generally recognised, entrepreneurs are faced with many obstacles that limit their growth and survival. Research on small business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2006). It is crucial to have an understanding of the problems facing small business development in Africa. Okpara (2011) concludes that the growth and survival problems facing African SMEs can be generally classified into four broad categories: (1) administrative; (2) operating; (3) strategic; and (4) exogenous problems. The first three categories can be referred to as Endogenous problems which are influenced by organisational climate. Both the endogenous and exogenous organisational factors contribute to the success or failure of an organisation, but it is imperative to mention that the endogenous factors are encapsulated in the organisational climate cocoon.

### **Research problem**

While much SME problems has been researched (Levy 1993; Pissarides 1999; Peel and Bridge 2002; Hudson et al 2001) very little attention has been paid to the internal dynamics of SMEs themselves in order to fully understand their impediments to growth. The internal dynamics are been looked at as the surrogate for growth, success and failure, but the internal organisation of the SMEs as somewhat been overlooked and these are critical factors. Internal dynamics relates to what happens within the SMEs themselves, the cognitive processes, the interpersonal relationship, interfaces within the organisation, all these are captured by the climatic factors. Therefore, climate factors becomes a robust conceptual platform on which this entire research will be based.

### **Literature Review**

#### ***Organisational Climate***

The concept of organisational climate became popular in the industrial and organisational literature particularly in the 1960's and 1970's with the book of Litwin and Stringer (1968) and the two major reviews of Forehand and Gilmer (1964) and James and Jones (1974). The topic remains one not only of considerable theoretical speculation and research (La Follette, 1975; Qualls & Puto 1989, Kozlowski & Doherty 1989), but also disagreement (Jackofsky & Slocum, 1988; Payne, 1990).

In an attempt to define or operationalize the concept, many researchers quote Forehand and Gilmer (1984) ) Who noted that: "Organisational Climate is the set of characteristics that describe an organisation and that (a) distinguish one organisation from another (b) are relatively enduring over a period of time and (c) influence the behaviour of people in the organisation." However, the concept proved ambiguous, nebulous and controversial. The main problems in the conceptual clarification concern whether climate should be conceived of in terms of the objective (physical or structural) features of the organisation or the subjective (perceptual) reactions to the organisation. Hence Guion (1973) argued that a perceived climate concerned both the attributes of an organisation and those of the perceiving individual and that as most often conceived climate was simply an alternative label for affective responses to organisation, like job satisfaction. James and Jones (1974) suggested the psychological climate be used to emphasise the fact that it is the aggregated cognitive interpretations of an organisational work-force which arise from experience in the organisation and provide a representation of the meaning inherent in the organisational features, events and processes (Schneider, 1983 a,b; Kozlowski and Farr, 1988).

An important but related issue concerns the amount of consensus within an organisation concerning the perceived climate. Pace and Stern (1958) suggested a two-third agreement but Guion (1973) has argued that it should be 90% for the concept of climate to be invoked. Payne (1990) has argued that the concept of organisational climate is invalid because people in different parts of the organisation have radically different perceptions of the organisation (hence the perception is not shared) and that where perceptions are consensually shared, in small groups, they are not representatives of the climate of the whole organisation. Thus for Payne (1990) it is possible to have departmental but not organisational climates.

The second major theoretical problem concerns the effect of climate (or employee perception) on organisational behaviour. Climate may be conceived of as an independent variable, as for instance in the work of Campbell, Dunnette, Lawler and Weick (1970), it is assumed that organisational climate directly influences (causes) various work outcomes both positive like productivity, satisfaction, and motivation, and negative like absenteeism, turnover and accidents. Others have considered climate a dependent outcome variable that is the result, and not the cause of, organisational structure and process. In this sense climate may be a useful index of organisation's performance but not a causative factor of it. A third and perhaps more common approach has been to see climate as a moderator variable in that climate may be the indirect link between two organisational outcomes. Thus, climate may be the moderator variable between job satisfaction and productivity ((Furnham 1998). Various untested but heuristically satisfying models consider climate as one of a number of powerful moderator variables (Litwin and Stringer, 1968). Finally, some researchers believe that climate is epiphenomenal, neither a direct cause nor effect variable but one that emerges in some form in all organizations with no influence on it. There are many models which use the concept of climate (Litwin and Stringer, 1968, Bonoma and Zaltman, 1981) but very few specify the exact relationship between climate and other organisational processes. Few researcher and model builders have acknowledged that the climate may be both an independent and dependent variable simultaneously. A third major problem in the area concerns the issue of measurement of climate or employee perception.

The impact of climate on performance can be viewed at both organisational or unit levels. Marcomick & Parker (2010) posits that the climate is a group level concept; individuals within an organisation need to agree on their perceptions of the environment in other for those perceptions to be meaningfully aggregated to represent organisational or unit climate. Schneider (1990), suggested that the environment could be influenced by performance, of both the person and the group (aggregated). Schneider and Synder (1975, pp.474-5) suggested that the holistic nature of climate perceptions is such that perceptions function as a frame of reference for the achievement of some agreement between behaviour and the organisation's practices and procedures. It is also noted that satisfaction is a personal assessment of an organisation's practices and procedures, people in the system will tend to disagree on their satisfaction than on their description of the system climate. Ahmad et al (2010) conclude that employee satisfaction with organisational climate is important because of its effect on productivity and success of the organisation. The positive climate of the organisation has been noted to have a positive relationship with job satisfaction and ultimately employee performance.

Adeyemi (2008) identified some factors which influence the climate of an organisation. The first one is leadership behaviour and welfare, he argues that a leader who places a high value on the welfare of staff is likely to have a more desirable organisational climate than a leader who places less value on staff welfare. Economic condition is another factor, when the economic conditions are good, organisations are likely to have a relaxed budget, otherwise, budget might become tighter. The third factor is the availability and management of resources and lastly motivation. Bigge and Hunts (2000) comment that when workers are sufficiently motivated, they would respond positively to high job performance.

Halpin (1967) identified six types of organisational climates: the first type of climate is the open climate, this type of climate is characterised by low disengagement, low hindrance, but there is high intimacy and high morale, closed climate – this is the opposite of the open climate, there is high disengagement, high hindrance, low morale and low consideration. The third type of climate is the autonomous climate – characteristic features of this climate are; absolute freedom for the employees to carry out and the manager is relatively aloof, the fourth category is the controlled climate, in this type of climate, managers are highly domineering and employees are closely monitored, fifth category is the paternal climate, it is characterised by low disengagement, the management style is more dictatorial. The last category is the familiar climate, this is defined by

There are numerous ways of measuring organisational climate. The first is categorical, which attempt to classify organisations into pre-existing theoretical types. The second is dimensional. which are thought to capture or fully describe the organisational climate. The first or categorical approach has not been very popular or successful. Examples of this approach can be seen in the work of Ginsberg (1978) who described three basic climates (inception, post-entrepreneurial and bureaucratic) and Halpin and Croft (1962) who felt climates could be categorised as either open autonomous, controlled, familiar, paternal or closed. Although this approach has attracted a certain amount of research (Hall 1971) its limitation are those of all typologies -- lack of fine description, inappropriate categories, and most importantly the idea that organisational climates are multi-dimensional and should be measured on various salient albeit related, dimensions.

A number of dimensional organisational climate measures exist. Litwin and Stringer's (1968) 50 items Organisation Climate Questionnaire (Form B) is designed to measure nine characteristics reflecting the degree of organisational emphasis on Structure, Responsibility, Reward, Risk Warmth Support, Standard, Conflict and Identity.

Several additional measures have often been utilised in psychological/organisational research. for example, House and Rizzo (1972) developed the Organisation Description Questionnaire. Taylor and Bowers (1972) popularised the University Of Michigan Survey Of Organisations. The survey has 22 items designed to measure organisational climate. Similarly, Payne and Pheysey (1971) offered a Business Organisation Climate Index which is a refinement of Stens's (1967) Organisational Climate Index. Other Measures were also developed by Jones and James (1979), Halpin and Croft (1963) and Pritchard and Kurasick (1973).

### ***Organisational Performance***

There is evidence of sufficient research being carried out on small and medium enterprise in relation to their performance or lack of it, but the focus of those studies has largely been big organisations and mostly in the developed countries where defined structures are in place to support SMEs activities and to measure their performance (Lohrke 2006; Hudson et al 2001). There is hardly any mention of climate as an important variable in organisational performance. While much work has been done in the field of understanding organisational performance and the underlying objective determinants (e.g. contextual features such as structure, technology and size), little empirical work is found in the literature identifying discriminating influences that climate may have on performance.

Organisational performance can be put into two sub-constructs, financial and non-financial organisational performance. Financial performances measures include percentage of sales resulting from new products, profitability, and capital employed and return on assets (ROA) (Selvarajan et al., 2007; Hsu et al., 2007). Grossman (2000) also suggested return on investment (ROI), earnings per share (EPS) and net income after tax (NIAT). Selvarajan (2007) put forward the measurement of organisational performance using the perceived performance approach, this is also referred to as subjective performance measure. This utilises

Likert-like scaling to measure firms performance from the top management perspective. Ukenna et al.(2010) argue that the traditional model of performance evaluation places emphasis on financial measures as drivers of organisational performance. This model has been heavily criticised by both academics and practitioners for its inadequacy at capturing important aspects of corporate performance when wealth creation is linked with intangible and non-financial resources within dynamic markets. A developing model performance measurement focuses on combining both financial and non financial measures such as efficiency, innovation and productivity.

### **Summary and conclusion**

So much attention has been devoted to SME performance both by academics and policy makers not only because of their pivotal role of contributing to economic development, wealth and employment creation and but also because of the unequivocal agreement on the importance of having a strong SME sector in any economy. Literature review has revealed that organisational climate can act as a predictor / facilitator or mediator of corporate performance. Therefore, it goes without saying that employee perception of organisational climate type (open, autonomous or paternalistic) impacts to a great extent employee motivation level, job satisfaction and ultimately job performance which translate to organisational success. So from the above, any effort at improving corporate performance of Nigerian SMEs should start by assessing the internal organisational environment, specifically ensuring a positive climate through the leadership and management style, availability of resources and employee motivation.

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## **Occupational health and safety for informal sector workers: the case of street traders in Nigeria**

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*This study examined two important types of occupational hazards in the street trading activities in Nigeria which are (i) injuries sustained from road traffic accident and (ii) harassment of traders through indiscriminate arrest, seizure and confiscation of merchandise and occasional incarceration of sellers in police cells without trials. The data for the study was generated from a 2011 national survey of 3,873 street traders in Nigeria which was made possible through a research grant provided by the Covenant University's Centre for Research and Development. In addition to the descriptive statistics used in profiling the street traders, the binary logistic regression approach was also used to estimate the log of odds of experiencing occupational hazards in street trading activities. The study found out that 25% of the traders have suffered injury, while 49.1% have experienced harassment from public authority officials. Given these findings, policy measures that are capable of enhancing the safety of street traders, and stem urban-ward migration have been proposed.*

### **Introduction**

This study is concerned with the occupational safety and health of workers. The provision of safe working environment in the formal sector of the economy is the normal role of a firm looking for ways to maximize its returns, and one way of doing so is to increase the level of workers' productivity. By investing in the safety and health of workers, a profit maximizing firm will try to minimize its internal production costs as the provision of safe gadgets and decent working environment involves costs that must be paid by the firm with the expectation of receiving benefits of such investments in form of higher productivity. The equilibrium level of safety is the point where the rising marginal cost of job safety intersects the downward sloping marginal benefit from job safety (McConnell et. al, 2010). However, evidences in most countries have shown that the level of safety attained is affected by a low level of investment in safe working environment by private firms and this has motivated public intervention to reverse the trend.

One important way by which the government intervenes in the labour market is through the enactment and enforcement of the requirement of conducive environment for effective labour market transactions. Some of the ways by which this is carried out is through the enactment of laws to guide the actions of the labour market operators, i.e. the individual labour suppliers and their unions as well as the employers/employers' associations. These laws have ways of enforcing safety laws, influencing the level of earnings and employment in the labour market, among others. With particular reference to occupational health and hazards, governments do intervene by promulgating laws to regulate minimum health and safety conditions for work in factories, mines and workshops; and laws relating to compensations for temporary and permanent disabilities as well as death.

However, the situation in the informal sector of the economy is different. The enterprises which operate in this sector do so without binding official regulations including those that operate under official regulations that do not compel rendition of official returns on its operations or production process (NBS,

2010), and then most of the laws relating to occupational safety and health are rarely complied with in the informal sector. As such, not much is known with respect to the level and extent of occupational safety and health in the largest and most visible part of the informal sector activities, i.e. street trading, which this study is trying to address. The main objective of this study therefore is to examine the nature of occupational hazards in informal sector trading with a view to determining the factors responsible for them. The remaining sections of this paper are organized as follows: following this introductory section, we discuss the Research Method in Section two. Section three discusses the Results from the data collected for the study and the last section concludes the study.

## **Research Methods**

The data for the study, which are from the primary source, were obtained by the authors in 2011 in a national survey of street traders. The project was financed by the Covenant University Centre for Research and Development (CUCERD), Nigeria. The study, which is national in scope, interviewed 3,873 street traders in the Northern, Eastern and Western parts of Nigeria. Four major cities representing the former regional divisions of Nigeria were purposively selected for the study. The cities are Lagos, representing the West, Aba and Port-Harcourt for the East and Kano to represent the North. The direct interview approach was used as the principal method of data collection using two instruments: the questionnaire and the focus group discussions.

The random sampling approach was used in the selection of the sedentary sellers after having constructed an on-the-spot sampling frame. This was possible because they were settled and were always around their stalls (whether make-shift or semi-permanent). For the roving traders, sampling was a little difficult. A combination of direct observation method combined with random sampling techniques was used. This was done in stages. In the first place, enumerators arrived at their respective EAs early to observe the traders selling in the early-hour peak period traffic of the day. While actively selling in busy traffic, they would not respond to interviews until the traffic situation eased and they find places to rest and wait for the next traffic build up. At the settling down spots, the enumerators treating each group as a stratum draw sample units from it. At the end of the survey exercise, three thousand eight hundred and seventy-three street traders were properly interviewed which resulted in an achievement rate of 86% out of the 4,500 planned respondents. In addition to this, focus group discussions were held for female street traders, male street trader and a mixed group of community members living in close proximity to the streets where many traders carry out their activities..

This study identified two types of occupational hazards faced by the street traders. The first is the one inherent in the type and nature of the job being done and this exposes the worker to occupational hazards. For street traders, the most pertinent form of hazard is the exposure to road traffic accidents which may be mild to being fatal. Other hazards latent in the job including inhalation of dust and fumes from badly maintained vehicles as well as obnoxious odour from blocked sewage system which are common sights in developing nations. The second form of occupational hazard relates to the harassment from the national authorities who chase them from the street. Though such type of harassment to traders is non-selective, however not all of them do experience confiscation of wares or an arrest leading to being locked up in police cells at any particular point in time. The respondents who are considered harassed are those whose goods have at one time or the other, been confiscated/destroyed, arrested and/or detained in police custody within the previous year period prior to the time of the interview. To appraise the statistical significance of the results reported above, a binary logit model was formulated to identify those characteristics that explain occupational hazards among street traders in Nigeria. The dependent variable is the vulnerability of respondents to occupational hazards (whether injury or harassment) which is captured in binary form (0,1) where 1 represents having had an injury from road traffic accident or harassment from public officials in the last one year while selling; and zero otherwise. A logistic regression analysis was therefore expressed as:

$$OSH_i = LN \frac{P_i}{1 - P_i} = \delta_0 + \delta_1 X_{1i} + \delta_2 X_{2i} + \dots + \delta_n X_{ni} + \epsilon_i$$

Where  $OSH_i$  ( $i=1,2$ ) is the log of odds ratio of either being injured ( $i=1$ ) or being harassed ( $i=2$ ) in street trading activities; while the X's are the various explanatory variables. The analysis of data was carried out with the Statistical Package for Social Sciences (SPSS) software.

## Results and Discussion

### Socio-demographic profile of the respondents

Table 1 represents the demographic profile of the street traders in the survey locations in Nigeria. The gender distribution shows that 58.4 percent of the street traders interviewed are males while women represent 41.6 percent.

**TABLE 1: SELECTED SOCIO-ECONOMIC CHARACTERISTICS OF RESPONDENTS**

<b>Gender</b>	<b>No</b>	<b>%</b>	<b>Region of Origin</b>	<b>No</b>	<b>%</b>
Male	2260	58.4	North central	153	6.6
Female	1613	41.6	North east	41	1.8
Total	3873	100	North west	281	12.2
<b>Age Group</b>			South East	667	28.9
Less than 14 years	52	1.5	South-South	469	20.3
15-24 years	1343	37.7	South West	653	28.3
25-34 years	1466	41.1	Non-Nigerians	43	1.9
35-44 years	496	13.9	Total	2307	100.0
45 years above	209	5.9	<b>Employment Status</b>		
Total	3566	100.0	Self-employed	3283	84.8
<b>Nature of Trading</b>			Employees	293	7.6
Sedentary Traders	1578	40.7	Others	297	7.7
Peddlers	2295	59.3	Total	3873	100
Total	3873	100			
<b>Educational Attainment</b>			<b>Initial Capital</b>		
No Schooling	538	13.9	Less than N20,000	3358	86.7
Primary Education	713	18.4	N20,000-49,999	192	5
Secondary Education	1640	42.3	N50,000 and above	41	1.1
Post-Secondary Education	982	25.4	<b>Total</b>	<b>3591</b>	<b>92.7</b>
<b>Total</b>	<b>3873</b>	<b>100</b>			
<b>Marital Status</b>			<b>Present worth of Business</b>		
Never married	2427	62.7	Less than N20,000	3181	82.1
Married	1364	35.2	N20,000-49,999	341	8.8
Separated/Divorced	37	1	N50,000 and above	61	1.6
Widowed	45	1.2	Total	3583	92.5
<b>Total</b>	<b>3873</b>	<b>100</b>			
<b>Religious Affiliation</b>			<b>Products Categories</b>		
Christianity	2413	62.3	Food, drinks, fruits & veg.	2468	63.7

Islam	1442	37.2	Others	1405	36.3
Traditional	18	0.5	<b>Total</b>	<b>3873</b>	<b>100</b>
<b>Total</b>	<b>3873</b>	<b>100</b>			
<b>Ever Injured during Trading</b>			<b>Ever Suffered Harassment</b>		
Yes	954	24.6	Harassed	1885	49.1
No	2919	75.4	Not Harassed	1954	50.9
<b>Total</b>	<b>3873</b>	<b>100</b>	<b>Total</b>	<b>3839</b>	<b>100.0</b>

**Source: Street Trading Survey 2011**

The age distribution is typical of a developing economy with higher number of respondents in the lower age groups. The result shows that a very large proportion of street traders (79 percent) are in the younger age group (15-34 years). The mean age is 28 years, attesting to the preponderance of youths among the street traders in Nigeria. More than half of the respondents (62.7 percent) are single, 35.2% are married while the remaining 2.2% are in the Separated/Widowed/Divorced marital group. While the under-15 are excluded by law from the labour force, the result revealed that 1.5 percent of respondents are below 15 years of age.

About 14% of the street traders interviewed have never been to school while the remaining 86% had undergone regular schooling. Only 25.4 percent have attained above secondary school level, 42.3 percent have had up to secondary school education while 18.4 percent out of all the respondents had only primary education. In addition, the literacy index shows that 70.2 percent of the street traders could read and write in at least in one of the Nigerian languages. Those that could not read or write in any languages constitute only 29.8 percent. However, a cursory observation shows that many of the street traders interviewed could speak the Nigeria's abridged English language version ("*pidgin*" English). In most cases, the interviews were conducted in pidgin, which seemed to be the medium of communication among these traders.

The study covered only street traders who are selling their wares along the public highway either as peddlers or sedentary sellers in front of shops or in open spaces by the road side. In terms of products being offered for sale, the proportion of street traders that sell food, drinks, vegetables and fruits are 63.7 percent while those that are involved in other product categories are 36.3 percent as indicated in Table 1. In terms of the nature of trading, the result showed that more than half of the respondents (59.3 percent) are peddlers while the remaining 40.7 percent do carry on their trading in as sedentary sellers in semi-permanent stalls/locations. The latter group consists of sellers that use table tops, makeshift shops, and those that spread their wares on the ground or use display glass boxes by the road side. Employment distribution show that the self-employed are 85% while the employees are about 8%, while the rest are unpaid family workers, apprentices and others.

### **The Nature and Extent of Occupational Hazards among Street Traders in Nigeria**

#### **Occupational Hazards in Street Trading: Physical Injury due to Road Traffic Accident**

Street trading activities involve high level of risks that often lead to several forms of occupational injury (and sometimes, death) for all participants both peddling and sedentary. It has even been argued in the literature that informal employment, in general, involves a higher risk relative to the formal sector workers in the same industry and occupation (Dorman, 2000). Since majority of the workers are self-employed with or without employees, the dearth of the required capital level makes the provision of Occupational Safety and Health (OSH) gadgets to be unaffordable for such entrepreneurs and therefore, majority of the workers do discharge their duties under unsafe and highly unhygienic conditions. For street traders, the conditions of work are even riskier as the peddlers sell among slow-moving traffic with the attendant risks of motor traffic accidents. Furthermore, the condition of work for street traders is

worsened by the parading public authority officials (popularly known among street traders as ‘Task Force’) on Environmental Sanitation and Traffic Control who regularly engage in chasing away street traders from the highways within cities of Nigeria. For this study, two types of occupational hazards are identified: injuries arising from road traffic accidents which may or may not involve loss of wares being sold; and harassment by the public authorities involving arrest and/or lock-up in police cells and/or confiscation of wares by the arresting authorities which are a common experience among street traders.

Table 2 shows the distribution of respondents by whether or not they have experienced any form of injury and harassment by some selected characteristics. While about 25% percent of the street traders have been injured in the course of trading on the street, almost half of those responding to the study’s survey have experienced harassment in the course of street trading (Tables 1 and 2). Various forms of harassment suffered by street traders include, but not limited to bullying, beating, seizure of wares, forceful extortions, sexual overtures and/or exploitation and occasional lock-up in police cells pending being bailed by relations and friends. Presented in Table 2 are the socio-economic characteristics of street traders and how such variables have helped to explain the two types of occupational hazards identified in this study among the street traders.

In terms of age, those in the oldest and the youngest age-cohorts experience the highest incidence of injury at 26.8% and 25.7% of the respective age cohorts. For the other two age-cohorts, sustenance of injury is inversely related to age. With respect to education, those with the highest formal educational attainment experienced the highest

**TABLE 2: DISTRIBUTION OF RESPONDENTS BY OCCUPATIONAL HAZARDS EXPERIENCED DURING STREET TRADING ACTIVITIES AND BY SOME SELECTED CHARACTERISTICS**

Main Variables	Derived Variables	TYPE OF HAZARDS (%)	
		INJURED	HARASSED
AGE	Up to 24 Years	25.7	47.7
	25-34 Years	24.4	52.7
	35 – 44 Years	19.2	50.2
	45 Years and above	26.8	46.4
EDUCATION	No Schooling	27.0	46.4
	Primary	23.6	43.5
	Secondary	22.5	54.3
	Post-Sec.	27.7	45.9
GENDER	Male	27.7	44.3
	Female	20.4	56.0
MARITAL STATUS	Single	26.7	48.4
	Married	21.5	50.6
	Sep/Div. /Widowed	17.1	45.1
MIGRATION STATUS	Migrants	22.2	59.0
	Natives	27.3	32.9
EMPLOYMENT STATUS	Self-Employed	24.7	49.6
	Employees	24.6	55.3
	Others	23.9	37.5
NATURE OF TRADING	Sedentary	25.8	59.6
	Peddling	23.8	42.0
REGION OF ORIGIN	Northern Nigeria	29.3	36.8
	Southern Nigeria	22.8	64.6
	Non-Nigerian	7.0	39.5
STUDY ZONES	North	30.7	13.4

	East	23.9	52.9
	West	20.8	72.8
YEARS IN TOWN OF TRADING	Before 1980	18.9	54.7
	1980-1999	23.4	58.2
	2000-2011	24.5	57.8
LEARNT A SKILL?	Yes	24.9	63.9
	No	24.6	45.3
LOOKING FOR OTHER JOB?	Yes	26.5	53.1
	No	19.9	47.2
RELIGIOUS AFFILIATION	Christianity	22.0	60.0
	Others	28.9	30.8
<b>ALL VARIABLES</b>		<b>24.6</b>	<b>49.1</b>

Source: Computed by the authors from Survey Data

incidence of injury (27.7%), while it varies inversely with the level of educational attainment from ‘No schooling’ (27%) to those with secondary education (22.5%). Disaggregated by marital status, the single suffered the highest incidence of injury (26.7%), followed by the married (21.5) while the lowest incidence of injury is experienced by the last marital group (separated/divorced/widowed) to the tune of 17.1%. In terms of gender, the males are more prone to being injured (27.7%) relative to the females (20.4%). The probability of injury varies inversely with the number of years spent in the town of trading as those in the town before 1980 had the lowest incidence percentage of 18.9%, those that had been in the town between 1980 and 1999 had 23.4% while the latest arrivals (2000-2011) had the highest incidence of 24.5%. In terms of the region of origin, the street traders from the Northern region experienced the highest incidence of injury of 29.3% while those from the South had 22.8%.

The analyses of the probability of injury between the migrants and the natives shows that the natives experience a lower rate of injuries of 22.2%, while the similar figure for the migrants is 27.3%. This is hardly surprising since the natives have probably had a longer stay in the town relative to migrants and should have had a good knowledge of how to keep themselves safe from road traffic injuries. Given the fact that street trading by the peddlers involves moving among slow-moving vehicles or at times running after commuters in them to make sales, one expects the rate of injury to be higher among peddlers compared to the sedentary sellers doing business on a given spot. However, the report of the data analysis showed that a higher proportion of the sedentary sellers (25.8%) experience injury in comparison with the peddlers having an injury rate of 23.8%. The explanation for this might be that the sedentary sellers who are almost always sitting or standing at a spot might not be able to react quickly towards escaping from on-coming road traffic crashes into their selling stalls as fast as their peddling counterparts.

With respect to the cities from which the surveys were conducted, Kano (representing the North) had the highest probability of injury (30.7), followed by Aba and Port Harcourt in the Eastern Nigeria with 23.9%, while Lagos (representing the West) had the lowest figure of 20.8 per cent. There appears to be no difference in the probability of being injured between those who had learnt a skill prior to start street trading (24.9%) and those that did not (24.6%); however, those taking on street trading while searching for other type of employment have recorded a higher incidence of injury (26.5%) than those not looking for other jobs (19.9%) and finally, the Christians are less prone to road traffic injuries (22%) than the adherents of all other religions (28.9%).

### **Occupational Hazards in Street Trading: Harassments from Public Authority Officials**

The last column of Table 2 report the percentage distribution of those harassed during street trading activities in Nigeria. Unlike the case of injuries which affected about 25% of all sampled respondents, the case of harassment has affected about 50% of the street traders surveyed in Nigeria. In terms of age, the extent of harassment experienced was the least among the oldest age groups (45 years and over) with a percentage occurrence of 46%, while it is highest for age group 25-34 years with 52.7%. In terms of formal educational attainment, those with secondary education are the most harassed (54.3%) while the remaining educational groups are almost at the same level (44-46%). By gender classification, the females are more prone to harassment (56%) compared to the males (44.3%). Among the different classifications of marital states, the married experience the greatest level of harassment (50.6%) as compared to the single (48.4%) while the Separated/Divorced/Widowed category experienced the lowest level of harassment of 45.1 percent.

Like the case of injury, the number of years spent in the town of trading appears to be indirectly related to the level of harassment received. For instance, those that have spent the longest time (i.e. those that had been in town before 1980) had the lowest level of harassment of 54.7% while the other two groups are almost at par with about 58% incidence rate of harassment. Perhaps, being in the town for a longer period gives the respondents the knowledge of either how to bribe the officials to receive prior information before any raid is carried out on the street, or to escape being arrested at the sight of the officials. This appears plausible because the data for migrants show that a higher proportion of them (i.e. the migrants) experience higher level of harassment (59%) relative to the natives (32.9). In terms of the city of trading, those in the West (represented by Lagos) experienced the greatest level of harassment (72.8%) as compared to those trading in the East (52.9%) and North (13.4%). This is probably because most of the cities in Southern Nigeria have placed a ban on street trading activities.

Disaggregated by respondents' region of origin, the Southerners claim to be much more harassed (64.6%) than those from the Northern part of the country (36.8%) and the Non-Nigerians (39.5%). In terms of the nature of trading, the sedentary sellers appear to be more harassed (59.6%), compared to their peddling counterparts (42.0%). With respect to the survey locations, a greater proportion of those trading in the South (72.8%) followed by those trading in the Eastern part of Nigeria (52.9%) while the least harassed are street traders from the North (13.4%). Disaggregated by the status of respondents in employment, the employees suffer the greatest level of harassment (55.3%) while for those in self-employment it is 49.6%. The respondents who are making street trading a temporary appointment pending the time to secure desired employment in the formal sector experienced a higher level of harassment (53.1%), compared to those committed to the sector (47.2%), while a greater proportion of those that have learnt a skill prior to selling on the street (63.9%) are much more harassed than those that did not (45.3%). In terms of religious affiliation, majority of those in the Christian faith (60%) have experienced harassment relative to the adherents of other religions (30.8%).

### **The Probability of Experiencing Occupational Hazards in Street Trading**

The estimation of the basic logit model proposed for this study is presented in Table 3. The coefficient estimate of each of the explanatory variables shows the influence of each of variable on the probability of exposure to injury (Table 3, Regression 1) and to the probability of being harassed (Table 3, Regression 2). The result obtained for both types of occupational hazards are shown as Regression 1 and Regression 2 respectively. The model reported in Regression 1 shows that four of the variables are significant at the levels of confidence indicated. The model as a whole explained between 5.4% (Cox and Snell R-Squared) and 8.2% (Nagelkerke R-Squared) of the variance in the probability of sustaining road traffic injury, and correctly classified 77.8% of the cases. The Chi-Square statistic of 71.390 ( $p < 0.001$ ) indicate that the model is able to distinguish between respondents who experienced road hazards and those that did not, within the period specified in the survey instrument. One of the four explanatory variables is significant at the 1% critical level while the other three are statistically significant at 5% level. The



variables are: Religion\_Christianity, Search4Otherjobs, Trade Mode\_Sedentary, and average number of days per week spent in street trading.

In the last column of Regression 1, the Exp(B) or the odds ratio are reported and each of these represents the predicted change in odds for a unit increase in the predictor. The sedentary sellers as well as those who are not fully committed to street trading but are searching for other jobs are having Exp(B) values of 1.439 and 1.391 respectively. Since both variables have positive coefficient estimates, it shows that the respondents to which each of them refers are more susceptible to injury compared to those in the reference category, in a statistically significant sense. Thus, the peddlers are less prone to injury compared to the sedentary sellers, while those not searching for other jobs are less susceptible than those looking for other jobs. In similar vein, the respondents who are adherents of the Christian religion are less prone to road accidents and injury compared to those in the other religions while the incidence of injury reduces as the average number of days spent selling on the street per week increases. For the other explanatory variables, there is no significant difference in the probability of being more or less exposed to injury for street traders. In other words, all the street traders irrespective of age, formal educational attainment, marital status, region of origin, among other explanatory variables that are not statistically different from zero, are equally vulnerable to the occupational hazard or road traffic injury, in a statistically significant sense.

Regression 2 of Table 3 reports the probability of being harassed in the street trading activities in Nigeria. The explanatory variables included in the model explained between 30.3% (Cox and Snell R-Squared) and 40.8% (Nagelkerke R-Squared) of the variations in the probability of being harassed. The Chi-Square coefficient is 465.388 ( $p < 0.001$ ) showing a very good fit in the model. At a critical level of at most 10%, eight of the explanatory variables are found to be statistically significant. Four of these are significant at the 1% level, and two each at the 5% and 10% levels respectively. Male=1, Migrant=1, and the two Survey Zone variables belong to the first category of variables having 1% statistical level of significance; Age 1, and Religion\_Xtian belong to the second category while the third category of variables are Age 2 and Days of Trading per week. The most important variable among the explanatory variables is the research location dummy: Research Zone\_West, and this is closely followed by the Research Zone\_East variable with the odds-ratio values of 46.117 and 10.453 respectively. This shows that street traders in the Western Nigeria (represented by Lagos) and those in the Eastern Nigeria (represented by Aba and Port-Harcourt) are over 46 and 10 times respectively, more likely to be harassed than those in the Northern Nigeria (represented by Kano) which is the reference category.

**TABLE 3: BINARY LOGIT REGRESSION RESULT FOR OCCUPATIONAL HAZARDS IN STREET TRADING IN NIGERIA**

VARIABLES	REGRESSION 1: INJURED				REGRESSION 2: HARASSED			
	<i>B</i>	<i>Wald</i>	<i>Sig.</i>	<i>Exp(B)</i>	<i>B</i>	<i>Wald</i>	<i>Sig.</i>	<i>Exp(B)</i>
<b>Age1: &lt;25 YEARS</b>	.135	.270	.604	1.144	.596**	5.408	.020	1.816
Age 2: 25-34 Years	-.057	.060	.807	.945	.395+	3.083	.079	1.484
Age 3: 35-44 Years	-.253	.859	.354	.777	.420	2.650	.104	1.521
Age 4: 45 Yrs and over	(a)							
Educ 1: Primary	-.229	1.056	.305	.795	-.129	.299	.584	.879
Educ 2: Secondary	-.316	2.234	.135	.729	.204	.869	.351	1.226
Educ 3: Post-Sec.	-.160	.530	.467	.852	.131	.316	.574	1.140
Educ 4: No Schooling	(a)							
Gender_Male	.132	.646	.422	1.141	.742*	21.086	.000	2.101
Marstat1_Single	-.085	.033	.856	.919	.495	1.118	.290	1.640
Marstat2_Married	-.560	1.597	.206	.571	.532	1.443	.230	1.702
Marstat3_Others	(a)							

Migrants=1	-.002	.000	.994	.998	.979*	10.315	.001	2.661
Religion_Christianity	-.619*	9.797	.002	.538	-.488**	4.802	.028	.614
Skill_Learnt	.199	1.498	.221	1.220	-.006	.001	.972	.994
Searchg4Other job	.330**	4.992	.027	1.391	-.037	.060	.807	.964
Empt_Self Employment	.085	.072	.788	1.089	.480	1.972	.160	1.616
Empt_Employee	-.022	.003	.954	.972	.629	2,421	.120	1.876
Empt_Others	(a)							
Trade Mode_Sedentary	.364**	5.582	.018	1.439	.178	1.407	.236	1.195
Trade Mode_Peddling								
Region of Origin_North	.315	1.927	.164	1.370	-.153	.428	.513	.858
Region of origin_others	(a)							
Survey Zone_West	-.264	.904	.342	.768	3.831*	141.418	.000	46.117
Survey Zone_East	.186	.335	.563	1.205	2.347*	44.596	.000	10.453
Survey Zone_North	(a)							
Product Sold_ffbv	-.082	.307	.579	.821	.234	2.443	.118	.858
Product Sold_others								
Year in Town	-.042	.498	.480	.959	-.069	1.386	.239	.933
Sales per week	.012	.051	.821	1.012	-.079	2.050	.152	.924
Days of Trading per wk	-.187**	5.518	.019	.829	-.235+	6.706	.010	.790
<b>Constant</b>	.532	.362	.547	1.702	-2.964*	9.608	.002	.052
<b>N</b>		1291				1287		
<b>Hosmer &amp; Lemeshow</b>	Chi-Square: 8.450 (Sig. =.391)				Chi-Square:6.596 (Sig.= .581)			
<b>Pseudo-R Squared</b>	Cox&Snell: .054; Negalkerke:.082				Cox&Snell:.303; Negalkerke:.408			
<b>Omnibus Test of Coeff.</b>	Chi-Square: 71.390; (Sig.= .000)				Chi-Square: 465.388 (Sig.: .000)			
<b>Overall Percentage</b>		77.8				58.4		

Note: \* = Significant at 1% level      \*\* = Sig. at 5% Level      + = Significant at 10 level

Source: Computed by the authors from Survey Data

In terms of gender, the males have a higher probability of being harassed than the females while the migrants experience higher probability of harassment than the natives. The youths in the 'less-than-twenty-five' years' age-grade, experience a higher probability of harassment than those in other age groups. Out of the three continuous variables included in the model, only one of them (Nofdays), the average number of days worked per week was statistically significant at 10% critical level. The coefficient estimate of Nofdays has a negative value showing that the higher the number of days worked per week on the average, the less is the respondents' exposure to harassment. This could be due to the fact that such workers have better understanding of the timing of the raids of the 'Task Force' team and as such sneak away from the street before arrest and/or confiscation of articles of trade. Those who are not regular in street trading would have walked into the 'net' of the Task Force team before knowing.

### Summary of Findings, Policy Implications and Conclusion

This study examined two important types of occupational hazards in the street trading activities in Nigeria which are (i) injuries sustained from motor traffic accident and (ii) harassment of traders through indiscriminate arrest, seizure and confiscation of merchandise and occasional incarceration of sellers in police cells without trials. The descriptive statistics of street traders show that about 80% are in the 15-34 years age range, 68% have at least secondary education, 63% are single, 61% are migrants from other towns and villages in Nigeria in addition to few non-Nigerians interviewed for the study, while 58% are of the male gender. Using the binary logit model, the study estimated the log of odds of experiencing

occupational hazards in the street trading activities of the urban informal sector. The study found out that in the last one year, about 25% of the traders have suffered one form of injury or the other, while almost 50% have experienced one form of harassment or the other. Found to be worst hit by injuries in street trading are the sedentary sellers and those in street trading as a temporary means of sustenance pending when they will secure the desired formal sector engagement like employment or higher formal education. The case of harassment is found to be more pronounced among the young, single and male members of the street trading work-force as well as those in Lagos compared to other cities where the study took place.

This exploratory study has several implications for policy formulation in Nigeria. Given the high unemployment rate in Nigeria, street trading should be seen as an important aspect of employment creation even if precarious and unstable, in the Nigerian informal economy. This becomes important since there is no form of social safety net from the government as well as adequate familial support for the unemployed youths (mostly migrants) in Nigerian cities. Thus, informal sector employment either as a temporary staging post or a permanent life-time career has become one of the mainstays for the economy. Therefore, the paving of streets in Nigeria should be designed as to provide safe trading platforms for street traders in a safe manner. Analogous to walkways, trade-ways should be created along the major streets to enable pedestrians and commuters purchase needed items from traders without the latter facing the risk of injuries from road traffic accidents. Adequate barriers separating the trade-ways from the motorways should be built to prevent traders moving to the street for selling purposes. Also, the government should be committed to providing more employment opportunities for the youths as this will remove many of them from the least desired informal employment of street trading which many of them are involuntarily engaged in, at present.

Another important implication for policy in this study is the resilience of operators of informal street trade in spite of the high level (49.1%) of harassment to the operators. Given the fact that the number of traders do not decline with the number and intensity of street traders' harassment, there is a need for a change of strategy towards urban environmental protection. Rather than the present method of Task Force harassment of street traders, a persuasive approach, emphasising street traders' enlightenment and education to the dangers of street selling hazards is expected, over a long haul, to reduce the street trading menace. This strategy, reinforced by the provision of alternative selling points and increased formal sector employment opportunities is expected to reduce informal sector occupational hazards in general and those of street trading in particular.

Finally, policy thrust of the government should focus on integrated national development and employment generation in both the rural and urban areas of the country to stem the tide of lopsided urban-biased migration to the few developed cities in Nigeria. For instance, this study showed that the migrants among the street traders are a whopping 61%; among which 58% are involved in injury and another 74% have experienced harassment in the course of street trading in the study locations. A development that is focused on integrated national development rather than urban-biased type will reduce urban congestion and hence a reduction in the level of occupational hazards in the informal street trading activities.

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## **Exporting, Internationalization and Foreign Direct Investment**

## **The Sub-Saharan Business Environment Report (SABER): 2011 Findings**

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*The paper details the findings of the 2011 Sub-Saharan Business Environment Report. SABER 2011 focuses on the twenty countries that have the highest GDPs in Sub-Saharan Africa (SSA). The findings show enhanced performance in political stability and economic growth in many countries spurred on by governments; the private sector; foreign direct investments (oil exploration and production, construction and infrastructure); improved telecommunications and mobile technologies; increased agricultural outputs and food production; development of financial markets; greater societal and gender equity in various social aspects; and so forth. African companies and entrepreneurs are making business deals that span the globe. Exports from and imports to SAA countries are critical with China, the U.S., U.K. E.U, and India being the main players. Within the four sub-regions of West Africa, Central Africa, East & Horn of Africa, and Southern Africa, SABER's statistical and qualitative data allow assessments and evaluations of political stability, GDP growth, FDI, Trade Balance, and Business Climate. The paper assesses both the positive and negative aspects of financial conditions and the current climate for doing business.*

### **Introduction**

Many Sub-Saharan African (SSA) countries have changed significantly in the past decade. Economies are growing, elections are being held, and regulations are becoming more business friendly. While SSA companies and business people across the continent are working to correct stereotypic images, many investors are not aware of the continent's potential, and do not have enough data to assess the SSA business climate and African entrepreneurship and business endeavors that range from local, to regional and to global. Foreign direct investment (FDI) and business deals span the globe, as do African exports and imports. The SABER 2011 report addresses this information void by pointing to business activities that are vibrant and dynamic in many countries and sectors. It also realizes that African countries still face many challenges, and distinguishes attractive from problematic conditions. SABER emphasizes African links, deals, and exports/imports in this era of globalization within Africa, and with North America, Asia, and Europe. SABER focuses on producing a set of the most useful country information and indicators using data from many publications, databases, and websites. Extensive research and travel in Africa by authors Spring and Rolfe help in the selection and primacy of the topics. This report is based on twenty countries with the largest GDPs, and organized by sub-regions (West Africa, Central Africa, East & Horn of Africa, and Southern Africa). It provides regional summary evaluations and individual country reports. Current features and events are highlighted for each country under six major topics: Political Stability; Economic Growth and Trade; FDI; Business Climate, Financial Markets and Microfinance; Infrastructure and Telecommunications; and Health and Social Aspects. Points given aim to be illustrative of 2010-2011 events, rather than all inclusive.

SABER's main markers are gleaned from the world's databases (see References: Online Resources) and constructed for the report to provide economic, political, social, gender, and health indicators, as well as business and governance rankings at a glance. SABER's print and electronic versions aim to assist businesspeople, policy makers, researchers, educators, and students in understanding the SSA business environment. SABER 2011 (Appendix A) provides statistical tables on FDI and trade, political and legal aspects, ease of doing business rankings, and social, gender, and health variables. These data help in describing and estimating the implications of business deals and FDI, imports and exports, business enablers and constraints, and financial markets and growth. Individual country reports provide illustrative

data, and focus on current business trends, deals, and political stability, while detailed quantitative and ranking indicators provide the data for these assessments. The full report can be found at <http://warrington.ufl.edu/ciber/publications/saber.asp> and <http://web.africa.ufl.edu/>.

### **The Model, Country Reports, and Appendix of Tables**

SABER's underlying model depicts three spheres. The first focuses on the domestic interaction of economic, political, and social factors within a country. The second looks at Sub-Saharan Africa's influential regional organizations (for example, SABER's regional groupings grouped are based on memberships in regional trade agreements), political entities (e.g., AU and NEPAD), and economic entities (e.g., African Development Bank) that influence trade and business regulations. The third considers multilateral and bilateral actors that include United Nations financial and development agencies that oversee monetary regulations, development assistance, and data collection in Africa and bilateral actors (e.g., U.S., E.U., China, India) that interact with SSA countries politically and economically (importing oil, minerals, natural resources, agricultural commodities, and manufactured goods from Africa, and exporting to Africa their machinery, spacecraft, manufactured goods, etc.). Also considered are non-African and African actors and companies that provide FDI to government and private-sector projects and business deals.

Each Country Reports details the main business trends in terms of: (1) political stability (elections, conflicts, corruption, civil freedoms, etc.); (2) economic aspects (growth rates, commodity production, exports and imports); (3) foreign direct investment (joint ventures, global and African investments); (4) infrastructure (transportation, telecommunications, electricity, etc.); (5) ease of doing business, stock exchanges, and microfinance (doing business rankings, financial markets, and microfinance); and (6) health aspects (statistics, expenditures, health campaigns, etc.).

A statistical appendix of quantitative and qualitative indicators provide data on the economics and trade, politics and legal aspects, ease of business, and social, gender and health variables. The data describe and estimate the implications of financial growth, FDI, exports and imports. The tables were constructed by SABER from the most current data available from Internet and print data bases (i.e., World Economic Database, World Databank, FAO's Production and Data Files, IMF's Direction of Trade Statistics, World Bank's Health Nutrition and Population Database, World Economic Forum, UNCTADstat, UNDP's HDI indices, WHO's Health Database, Transparency International political indices, Freedom House, Heritage Foundation, the CIA Fact Book, the Ibrahim Governance Index), as well as stock exchange websites. Many tables are based on SABER's calculations of changes through time. [Note: Databases do not yet have the data for Sudan and South Sudan separated, and hence SABER 2011 provides data under Sudan.]

### **SABER's SSA General Business Findings**

SABER's general business findings assess economic growth, agricultural production, infrastructure and telecommunications, financial markets, trade, exports and imports, and social variables. In terms of economic growth, prior to the 2008-2009 global recession SSA's GDP growth rate was about 6%. By 2011, hardest hit Southern Africa had a recovery rate of only 4%, West Africa's was about 5%; and Central Africa's was about 4%. East Africa dealt with the global crisis best, and had a growth of 6%; In 2010-2011, the oil producing countries (Angola, Equatorial Guinea, and Sudan) had the highest growth while Ethiopia had the highest growth for a non-oil country. Nigeria's oil growth was stymied by greater nationalization. Single commodity-based countries had high exports and high FDI: Nigeria (99% oil), DRC (96% minerals), Rep. of Congo (99% minerals), Equatorial Guinea (97% oil), Gabon (94% oil), Angola (95% oil), and Cameroon (82% oil) (SABER 2011, 2011:92-93).

Table 1 shows that agribusiness and agricultural development are booming in Ethiopia, Ghana, Gabon, Mozambique, Nigeria, Senegal, Tanzania, and Uganda. Added value per worker has



Table 1: Agricultural Land Area, Population, Value Added, and Food Production (Source: SABER 2011, page 89)

	Agriculture Value Added per Worker 2009 (Constant 2000 US \$)	% Change <sup>d</sup> , 2001 to 2009	Agriculture Land Area 2008 (% of Total Area)	% Change <sup>d</sup> , 2001 to 2008	Cereal Yield (kg per hectare) 2009	% Change <sup>d</sup> , 2001 to 2009	Economically Active Pop. in Agriculture as % All Active	% Change <sup>d</sup> , 2001 to 2008	Food Production Index <sup>d</sup> (2001 baseline=100) 2009	% Change <sup>d</sup> , 2001 to 2009	Crop Production Index <sup>d</sup> (2001 baseline=100) 2009	% Change <sup>d</sup> , 2001 to 2009	Livestock Production Index <sup>d</sup> (2001 baseline=100) 2009	% Change <sup>d</sup> , 2001 to 2009
<b>West Africa</b>														
Côte d'Ivoire	925.6	12.7	63.7	3.3	1,724.2	0.3	37.7	-15.4	120	20.0	109	11.2	132	29.4
Ghana	(2008) 40.1	9.8	68.6	7.1	1,659.8	39.9	54.4	-3.9	155	52.0	156	52.9	127	24.5
Nigeria	n/a	n/a	86.2	9.2	1,598.4	29.6	25.3	-18.3	135	36.4	134	35.4	121	18.6
Senegal	245.4	-4.2	47.5	3.9	1,134.5	27.9	71.3	-3.9	134	41.1	130	38.3	144	37.1
<b>Central Africa</b>														
Cameroon <sup>2</sup>	(2007) 730.3	20.5	19.4	0.0	1,573.9	-7.9	48.1	-16.6	120	18.8	117	15.8	105	4.0
D R Congo	167.9	0.3	9.9	0.0	771.6	-1.9	58.7	-7.8	98	0.0	97	0.0	96	-2.0
Rep of Congo	n/a	n/a	30.9	0.0	775.9	0.1	31.4	-16.8	123	21.8	116	14.9	157	57.0
Eq Guinea	1,004.8	24.7	11.1	-7.2	n/a	n/a	66.4	-12.9	89	-9.2	90	-9.1	104	3.0
Gabon	1,869.3	18.2	19.9	-0.4	1,663.4	27.2	27.5	-25.7	103	4.0	104	5.1	100	1.0
<b>East &amp; Horn of Africa</b>														
Ethiopia	214.7	27.3	34.5	9.9	1,651.7	37.9	80.3	-2.6	151	41.1	153	41.7	140	35.9
Kenya	334.2	-9.0	47.6	1.0	1,204.1	-26.6	70.7	-5.6	126	21.2	107	2.9	147	42.7
Sudan	922.3	12.5	58.1	3.3	587.2	-6.2	52.6	-11.6	119	10.2	112	1.8	123	16.0
Tanzania <sup>3</sup>	283.0	17.1	39.5	2.5	1,224.0	-37.2	77.6	-3.5	134	27.6	154	43.9	104	1.0
Uganda	202.9	-3.9	66.0	5.7	1,539.4	-6.2	77.2	-4.1	112	7.7	109	4.8	120	16.5
<b>Southern Africa</b>														
Angola	313.1	134.3	46.3	0.7	587.6	-5.8	69.4	-2.1	198	76.8	250	111.9	92	-8.0
Botswana	597.1	14.5	45.6	0.2	464.8	98.6	31.0	-4.7	113	3.7	120	14.3	112	1.8
Mozambique	219.7	63.8	62.0	1.0	845.9	-4.3	77.7	-2.4	102	3.0	130	27.5	89	-9.2
Namibia	1,638.1	1.9	47.1	0.0	465.4	20.2	33.4	-15.1	101	2.0	140	33.3	90	-7.2
South Africa	3,640.8	39.1	81.8	-0.3	4,395.2	81.4	6.7	-27.0	122	23.2	111	15.6	130	28.7
Zambia	215.7	-3.8	30.1	1.9	2,068.3	47.5	66.6	-2.2	135	36.4	170	80.9	106	3.9

Notes: <sup>1</sup>SABER Calculation

<sup>2</sup>Denotes the 2007 value for Cameroon and the % change from 2001 to 2007

<sup>3</sup>Denotes the 2006 value for Tanzania and the % change from 2001 to 2006

Sources: <sup>4</sup>Food and Agriculture Organization, electronic files and web site. accessed through The World Bank, <http://data.worldbank.org/>. Data accessed 10/02/2011

Derived from World Bank national accounts files and Food and Agriculture Organization, Production Yearbook and data files. Accessed through The World Bank, <http://data.worldbank.org/>. Accessed 10/02/2011

Table 2: FDI, Total Debt, Exports & Imports, Trade Balance (Source: SABER 2011, page 91)

	FDI Net Inflow 2009 (in current US\$m) <sup>1</sup>	Total External Debt Stocks 2009 (DOD, current US\$m) <sup>2</sup>	% Change, 2006 to 2009 <sup>3</sup>	Main Export Destination (% of total exports) <sup>4</sup>								Exports <sup>2,7</sup>		Imports <sup>2,7</sup>		Trade Balance <sup>2</sup>	
				Africa 2009	Change, 2006-2009	E.U. 2009	Change, 2006-2009	U.S. 2009	Change, 2006-2009	China 2009	Change, 2006-2009	2009 (in current US\$m)	% Change, 2006 to 2009 <sup>5</sup>	2009 (in current US\$m)	% Change, 2006 to 2009 <sup>5</sup>	2009 (in current US\$m) <sup>17</sup>	% Change, 2006 to 2009 <sup>5</sup>
<b>West Africa</b>																	
Côte d'Ivoire	380.9	11,700.8	-8.3	30.0	0.6	48.2	-1.7	7.8	-1.3	0.5	-0.8	9,722.4	6.3	7,866.2	6.9	1,856.3	3.8
Ghana	1,684.7	5,719.9	79.6	10.4	1.0	39.9	-5.2	3.8	-2.9	2.1	-0.5	7,982.1	55.4	10,820.3	30.3	-2,838.2	10.4
Nigeria	5,786.7	7,845.5	2.8	10.9	2.6	25.3	3.8	34.0	-11.6	1.5	1.1	62,053.6	-1.4	46,998.8	15.4	15,054.8	-32.3
Senegal	207.5	3,502.9	83.9	45.3	0.3	19.8	-4.5	0.2	-0.3	1.3	0.6	3,082.4	28.4	5,637.5	39.6	-2,555.1	-56.1
<b>Central Africa</b>																	
Cameroon	340.1	2,941.2	-9.3	13.5	5.0	58.1	-8.3	6.3	0.6	9.4	5.5	5,896.1	42.7	6,855.6	82.2	-959.5	-360.6
D R Congo	951.4	12,183.4	8.4	9.2	2.5	20.9	-24.6	14.3	9.4	47.2	26.2	1,017.1	-61.2	2,297.7	-39.4	-1,280.7	-9.6
Rep of Congo	2,083.5	5,041.2	-23.2	1.4	0.3	13.2	7.7	43.1	7.7	23.5	-7.5	6,883.9	5.8	4,875.8	-3.9	2,008.2	40.1
Eq Guinea	1,636.2	n/a	n/a	0.1	-0.2	23.9	-2.7	29.7	7.5	12.1	-18.8	7,712.5	-7.4	4,327.5	36.1	3,385.0	-34.3
Gabon	32.8	2,130.5	-49.1	4.3	-2.6	20.2	5.2	24.5	-3.3	13.6	-2.4	5,773.3	-2.3	3,685.1	21.4	2,088.2	-27.4
<b>East &amp; Horn of Africa</b>																	
Ethiopia	221.5	5,025.3	120.7	9.1	-0.4	33.0	-3.0	7.4	2.0	13.3	2.5	3,011.0	43.3	8,228.9	48.6	-5,218.0	-51.9
Kenya	140.5	8,004.7	22.2	34.6	-0.1	30.1	-0.9	5.9	-3.1	0.6	0.0	7,413.0	24.7	11,253.0	37.7	-3,840.0	-72.5
Sudan	2,682.2	20,139.4	10.5	1.7	0.7	1.9	0.4	0.1	0.1	60.3	-14.8	8,230.4	36.8	11,391.4	14.0	-3,161.0	20.6
Tanzania	414.5	7,324.8	80.9	18.4	-0.6	23.5	-1.1	2.5	0.3	9.4	0.4	n/a	n/a	n/a	n/a	n/a	n/a
Uganda	603.7	2,489.7	98.1	47.4	14.4	31.2	3.6	2.0	0.5	1.2	0.5	3,752.7	147.1	5,556.6	97.1	-1,803.9	-38.7
<b>Southern Africa</b>																	
Angola	2,205.3	16,715.2	76.5	4.0	2.7	17.3	8.9	24.5	-13.3	37.0	3.1	39,432.2	18.3	34,900.9	114.3	4,531.3	-73.4
Botswana	251.6	1,617.3	323.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,971.2	-25.0	5,273.5	52.8	-1,302.3	-170.8
Mozambique	881.2	4,168.5	54.0	16.5	-3.7	57.5	-8.6	2.1	1.8	3.8	2.4	2,454.1	-9.8	4,287.4	27.9	-1,833.2	-191.5
Namibia	490.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,319.4	35.8	5,548.4	67.3	-1,229.0	-801.4
South Africa	5,628.1	42,101.5	18.5	19.3	4.7	26.8	-8.5	9.2	-2.4	10.3	6.4	77,882.8	-0.6	80,327.6	-5.2	-2,444.8	61.7
Zambia	699.2	3,049.2	33.8	24.0	-12.1	8.6	-4.1	0.2	-0.3	33.0	22.7	3,794.2	-7.9	3,969.6	23.2	-175.4	-119.5

Notes: DOD = Debt Outstanding and Disbursed

<sup>1</sup>SABER calculation

<sup>2</sup>Export and import values include goods and services

<sup>3</sup>Trade balance equals exports minus imports

Sources: <sup>4</sup>International Monetary Fund, Balance of Payments database. Accessed through World Bank, World dataBank, <http://databank.worldbank.org/ddp/home.do>. Accessed 10/02/2011

<sup>5</sup>World Bank, Global Development Finance. Accessed through World Bank, World dataBank, <http://databank.worldbank.org/ddp/home.do>. Accessed 10/02/2011

<sup>6</sup>Calculated by SABER from data collected from International Monetary Fund, Direction of Trade Statistics. <http://www2.imfstatistics.org/DOT/>

<sup>7</sup>World Bank national accounts data, and OECD National Accounts data files. Accessed through World Bank, World dataBank, <http://databank.worldbank.org/ddp/home.do>. Accessed 10/02/2011

increased in Angola (134%), Nigeria (86%), Mozambique (64%), South Africa (39%), Ethiopia (27%), and others, while the percent of those active in agriculture has decreased. The Food Production Index has risen as shown by comparing 1999/2001 to 2009 data. Only DRC and Eq. Guinea fell behind, while other countries increased 7% to 76% (SABER 2011:89).

Most countries (except South Africa) are deficient in basic infrastructure (roads, rail, electricity, water systems, schools, and medical facilities). Much of the Chinese FDI and bilateral assistance are directed to building roads, rail systems, power stations, and hospitals. By contrast, telecommunications are booming. While land-lines decreased, mobile phones and mobile banking have increased dramatically everywhere. Mobile phone companies grew by leaps and bounds, with local company ownership a combination of private sector and government, as well as competitors from India, France, the U.S., and South Africa, and multinationals like IMB.

In terms of financial markets, seventeen of the twenty SABER countries had stock exchanges. There are eleven national (Botswana, Ghana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Sudan, Tanzania, Uganda, and Zambia) and two regional stock markets. Côte d'Ivoire and Senegal are part of BVM, while Cameroon, Eq. Guinea, and Gabon are part of BVMAC regional exchanges. South Africa's securities exchange regulation was evaluated as the best in the world in 2010-2011. Exchange Indices showed a banner year in Ghana, South Africa, and Namibia.

Table 2 provides data on trade with China and the U.S. By 2010, China was Africa's largest trading partner; trade grew more than 43% to US\$115bn in that year. FDI increased from US\$500mn in 2003 to over US\$13bn. China-Africa co-operation helped Africa reach Millennium Development Goals. China's "no political strings attached" approaches were widely accepted by African leaders but widely criticized by African citizens and others. Some questioned if African countries would emulate the Chinese model ("growing the economy at the expense of political reform"). The U.S. and E.U. worried about increases corruption, human rights, and environmental issues as a result of Chinese trade, FDI, and political cooperation.(SABER 2011, 2011:91-93).

Considering trade with the U.S., the African Union asked for the African Growth and Opportunity Act (AGOA) to be extended beyond 2015 and argued for new strategies to increase exports and FDI between the U.S. and Africa. The AU also asked the U.S. to help strengthen technical standards in Africa; and to promote intra-African trade as a platform for increased competitiveness.

## **SABER's Regional Findings**

### *SABER's West Africa countries: Côte d'Ivoire, Ghana, Nigeria, Senegal*

The now resolved Côte d'Ivoire presidential crisis still ensues some civil strife and affects the business climate due to slowdown in FDI and the previous ban on cacao exports. Ghana by comparison is jettisoning forward with the 5<sup>th</sup> highest GDP growth worldwide. Its peaceful transfer of power—the elected president had only a slim majority—showed democracy in action. Ghana's newly discovered oil is generating much FDI in petroleum exploration and processing, as well as producing new regulatory legislation from the government. The April 2011 election in Nigeria was a big improvement in its electoral conduct in spite of a great deal of north-south discontent with the outcome. There have also been frequent riots over petrol and rising costs. Boko Haram (an Islamist militant group) has attacked Nigerian government and U.N. targets, and killed civilians, shaking up the country and the world.

Ghana's agricultural exports, financial services, and FDI increased. Nigeria's oil production increased due to reduced tensions in the Niger Delta area, but FDI for oil exploration by large western companies declined, due to government's mandated expansion of Nigerian companies' roles in the industry. China built economic zones in major Nigerian cities for manufacturing and industrial processing in return for natural resource extraction through FDI projects. Senegal's GDP had a slight rise, but FDI fell slightly; agriculture was a main contributor to GDP, along with the service sector. The latter was true for Côte d'Ivoire as well. Both industry and agriculture were main contributors to

GDP in Nigeria. The majority of exports from Senegal were within Africa, those from Côte d'Ivoire and Ghana went to the E.U, and those from Nigeria went to the U.S. The Export-Import Bank of China signed a loan with Ghana for US\$10.4bn to develop rail, road, and energy infrastructure.

Ghana, where 72 of 100 inhabitants are mobile subscribers, was the recipient of many types of e-commerce and telecommunications' innovations in broadband cable, mobile phone services, and mobile banking. Nigeria had the largest number of Internet users in Africa (44 million or 28% of the population), but only 55 per 100 inhabitants are mobile subscribers. The Doing Business rankings placed Ghana 5<sup>th</sup> in SSA and 67<sup>th</sup> worldwide in 2011 world rankings. For the sub-index, Registering Property, Ghana ranked 31<sup>st</sup> in the world. By comparison, Nigeria's world rank was 134, Senegal's was 151, and Côte d'Ivoire's was 169. Nigeria's best sub-index was Protecting Investors with a world rank of 57, while Senegal had the shortest time to start a Business of only 8 days.

2010 was a good year for the Ghana Stock Exchange (GSE) as the national recovery contributed to its good performance. The Nigeria Stock Exchange (NSE) was steady, but continued to receive complaints against member companies. The BRVM (**Bourse Régionale des Valeurs Mobilières**), based in Côte d'Ivoire but serving as the regional stock exchange for Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo, performed steadily based on the IC Comp Index in 2010, but declined 11% in October 2011 reflecting world markets. Government bonds in Côte d'Ivoire were eagerly snapped up, and should help economic recovery.

*SABER's Central Africa countries: Cameroon, Equatorial Guinea, Democratic Republic of Congo, Republic of the Congo, Gabon*

Cameroon and Equatorial Guinea were part of SABER's Central Africa regional grouping due to their memberships in and affiliations with Regional Trade Agreements. The region lacked political stability and had the weakest infrastructure. There was public frustration with Cameroon's president Paul Biya being elected to his 5<sup>th</sup> term (in power since 1984) that led to unrest, but the opposition was weak. Cameroon's GDP rose 3.8% in 2010. Agricultural commodities (palm oil, cocoa, rubber) comprised about 20% of exports, while oil comprised 73%. In the DRC, President Kabila was re-elected in November 2011 along with widespread accusations of election fraud. He changed the constitution to his advantage, and changed FDI contracts for oil and minerals. Political strife continued in the eastern part of the country with its intense warfare (killing and raping of civilians) paid for by sales of minerals. The U.S. passed the Conflict Minerals Legislation in 2010 requiring U.S. companies to disclose mineral origins. Nevertheless DRC's economy grew at 5.2% due to copper and coltan exports.

In the Rep. of Congo, the president was re-elected by only a fraction of the population, yet the country's economy had the strongest growth in SSA due to its oil. The World Bank reduced its debt burden by 34%. Equatorial Guinea's authoritarian president, Teodoro Obiang Nguema Mbasogo (in office since 1979), chaired the AU in 2011. His attempt to give a prize for Research in Life Sciences was returned by UNESCO due to his human rights violations. Although a difficult place to do business, the country had spectacular economic growth due to oil exported to the U.S. (US\$2.2bn) and China (US\$600mn). FDI by U.S. and Russian oil companies continued, and China invested in timber exportation. In Gabon, Ali Bongo Ondimba, son of Omar Bongo (president for 42 years), was elected in 2009 with 42% of the vote. The economy grew 5% in 2010, due to oil exports to the U.S (US\$2.2bn) and China (US\$1bn).

DRC exports to the U.S. (US\$3.2bn) and China (US\$3.3bn) were about the same in 2010 (Global Trade Atlas). FDI was problematic although there are some Chinese, Canadian, and German companies investing. Kabila faced lawsuits from other investors who claimed their assets were seized. Rep. of Congo's oil exports were mostly to the U.S.; while FDI remained the same at US\$2bn. Doing Business was cumbersome in spite of minor changes.

The government of Gabon sought to limit the number of foreign workers in the oil industry to 10%, as 22% of executive posts were held by foreigners. Timber and forest products were the second largest generator of FDI, and the government increased the undeveloped and weak agricultural sector by

leasing large tracts of land to foreigners, including to South African farmers for crops and cattle. Most exports from Cameroon went to the E.U, those from DRC went to China, while most from Equatorial Guinea, Rep. of Congo, and Gabon went to the U.S.

Doing Business was difficult in all these countries. The best but still very low ranking was for Gabon at 156 (of 183 countries) and 27<sup>th</sup> (of 46 SSA countries). Eq. Guinea had the best sub-regional scores of the sub-indices Registering Property (75) and Enforcing Contracts (71). In Gabon, mobile phones subscriptions were 107 per 100 inhabitants, some people had multiple subscriptions, while in Eq. Guinea it was 57 and DRC it was very low at 17. The stock exchange, Bourse Régionale des Valeurs Mobilières d'Afrique Centrale (BVMAC), based in Libreville, Gabon, served the **Central African Republic**, Cameroon, **Chad**, Republic of **Congo**, **Eq. Guinea**, and **Gabon**. In the last quarter of 2011 there were no transactions, but companies used the BVMAC to float bonds to finance expansion.

*SABER's East & Horn of Africa countries: Ethiopia, Kenya, Tanzania, Uganda, Sudan, and South Sudan*

Ethiopia's Prime Minister Zenawi won the 2011 election leaving little space for the opposition. The Ethiopian-Eritrean border dispute flared in January 2010 at Zalambesa. The Badme area was still unresolved ten years after a signed peace agreement. A peace agreement was signed in the Ogaden region with United Western Somali Liberation Front, but the Ogaden National Liberation Front continued to attack. Ethiopia supported pro-government forces and fought against Al-Shabab in Somalia.

Kenya approved a new constitution in 2010, the first since independence, although the government of national unity was a constraint. Six Kenyans were accused by the International Criminal Court in The Hague of post-election violence from the 2008 elections. The situation affected FDI, tourism, and trade. Elections in Tanzania had the lowest turnout since multiparty democracy was instituted. President Kikwete was re-elected. Zanzibar's two rival parties set up a government of national unity, with the winner assuming the island's presidency and the rival becoming First Vice-President. Many Ugandans were upset by the February 2011 election won by President Museveni who limited the opposition's public presence. The government suppressed protests throughout the year.

Sudan's economy grew 5.2% but could decrease with the political uncertainty connected to South Sudan, as well as the fact that South Sudan has 85% of the oil and was trying to change agreements with Sudan for oil transit fees and revenues. South Sudan received independence in July 2011, with **Salva Kiir Mayardit** as its first president. Continued ethnic fighting, especially between Nuer and Murle with thousands killed in raids, as well as military violence left many areas in shambles. Kiir announced in October that South Sudan had applied for membership in the **East African Community**.

Ethiopia's economy grew by 9%, the 2<sup>nd</sup> highest in Africa and the 5<sup>th</sup> highest growth worldwide. The Ethiopian government made land deals with the governments and private firms from Saudi Arabia, China, India, etc. as a way to modernize agriculture, although the efficacy of this approach was considered suspect, as large numbers of Ethiopian peasants were displaced from their lands (Spring 2011). FDI by Chinese and Indian companies focused largely on building industrial farms and using their production for international markets, with only small amounts going to domestic markets. Turkish investment for an industrial park was significant.

Tanzania's GDP growth was 7%, partly due to increased tourism. China's presence was felt due to imports and FDI, including the symbolic US\$39mn to refurbish the Tanzania-Zambia Railway (TAZARA). Kenya's FDI from China for export processing was significant, but generally FDI inflows dipped from US\$729mn in 2007 to US\$141mn in 2008 and remained constant at US\$141mn in 2009. In a similar period, Uganda's FDI inflows jumped from US\$73mn to US\$799mn with the possibility of oil discovery, while Tanzania's held steady at US\$645mn. South Sudan made large-scale land deals with China, South Korea, and Egypt.

Ethiopia's exports went mostly to the E.U. as did a large part of Uganda's. Kenya and Tanzania mostly

exported to the E.U., while Sudan's main export, oil, went to China, its largest trading partner. The U.S. had no imports due to its sanctions against Sudan because of sponsorship of international terrorism.

Infrastructural damages in Sudan, and especially in South Sudan due to the civil war, was in shambles and doing business was very difficult. Kenya's Doing Business rank was 94 (of 183) in the world and 9 (of 46) in SSA, but on the sub-index Getting Credit, its world rank was 6. Ethiopia's Doing Business ranked 103, with a SSA rank of 10. Uganda established a new private credit-sector bureau that covered over 200,000 people affecting its 2011 rankings positively. The Nairobi Stock Exchange companies contributed 46% to GDP and approved demutualization that allowed greater participation and freedom to trade; its name changed to the Nairobi Securities Exchange Ltd. The Uganda Stock Exchange saw increases (113% in turnover and 84% in shares volume), while the Dar es Salaam Stock Exchange saw shares decline. The Khartoum Stock Exchange had few company shares traded, but lending institutions used it to float IPOs.

*SABER's Southern Africa countries: Angola, Botswana, Mozambique, Namibia, South Africa, and Zambia*

Angola's new 2010 constitution replaced the one from 1975, doing away with the popular election and allowing its parliament to elect the president for five-year terms. Corruption continued to be a major problem. Mozambique's president was elected for a second term, but appeared more authoritarian pursuing greater state involvement in the economy, unlike his predecessor who supported liberalizing it. In South Africa, tensions in the ANC caused discontent over economic policy. Botswana ranked as the world's 33<sup>rd</sup> least corrupt country. The 2009 elections saw President Khama re-elected but the opposition was muted. In Zambia's 2011 election, President Banda faced voter dissatisfaction and was defeated by Michael Sata. Banda considered Chinese investment essential for development, while Sata strongly criticized it.

Angola, the second largest oil producer in Africa, exported to both China and the U.S. Its FDI, one of the largest in Africa, garnered funds from China, Brazil, and the U.S. It was one of the most difficult places in the world to do business. China's significant presence in both Angola and Zambia included transplanting large numbers of Chinese workers especially for construction work. In Zambia, Chinese workers carried out 65% of the Ministry of Works and Water Supply's projects, and Chinese companies owned 5% of the copper mines.

Angola (oil), Botswana (diamonds), and Zambia (copper, often affected by world markets) were strong in generating FDI; these commodity-based sectors were the largest contributors to GDP. Zambia's mining contributed 70% to GDP. South Africa's gold, more significant in the past, was reduced in importance due to the increase in manufacturing and services. Mozambique and South Africa mainly exported to the E.U. and the rest of Africa, while Angola and Zambia exported to China.

Zambia's Doing Business rank moved from 84 in 2010 to 76 in 2011 (due to a 36-point jump to a rank of 57 in starting a business, as well as small improvements in registering property), making Zambia one of the top business reformers worldwide, according to World Bank rankings. In Mozambique, a simplified licensing system in 2011 and the elimination of minimum capital bank deposits improved its Doing Business rank by 31 points. The economy grew 7.8% in 2010 mostly due to price increases in aluminum (57% of exports). FDI was up as well, and both China and South African farmers bought land there for agricultural businesses. South Africa's Doing Business world rank was 32 (2010) but dropped slightly to 34 (2011). Diamonds contributed 33% to Botswana's GDP, but the global recession reduced income and FDI. Botswana ranked 52<sup>nd</sup> in Doing Business. In Namibia, the economy grew 4.2%, mining interests expanded but FDI decreased, and the Doing Business world rank was 69 in 2011. Financial markets performed especially well in South Africa. The Johannesburg Stock Exchange indices were up; it companies contributed a staggering 278.4% to GDP. The Namibia Stock Exchange was helped by Regulation 28 that added pension funds. Exchanges in Mozambique and Zambia held steady, while the Botswana's Exchange performed poorly.

The South African economy with its huge manufacturing and service sectors dominated the region. The country hosted the World Cup in 2010. There were 100.5 mobile phone subscribers for each 100 inhabitants, and mobile banking and payment services continued their development. Public expenditure on health was the 3<sup>rd</sup> highest in SSA. The country underwent a government-enacted affirmative action program called Broad-Based Black Economic Empowerment (B-BBEE) to entice companies to increase ownership, management, and employment to categories of people disadvantaged by apartheid.

HIV/AIDS rates were high in Southern African countries, and health care expenditures were concomitantly high and increasing. The U.S.'s PEPFAR disbursements provided support and prevention programs. Botswana with help from PEPFAR provided universal treatment access for HIV where the rate was the 2<sup>nd</sup> highest in the world. Zambia's rate was also high (15%); in 2009, 65% of individuals needing antiretroviral treatments received them. Angola, Mozambique and Zambia also received funds from the Global Alliance for Vaccines and Immunization (GAVI), while Botswana, Namibia, and South Africa were able to fund their own vaccination programs.

### Conclusion

How can all these data, both quantitative and qualitative, be summarized to reflect the business environment in SSA? SABER aims to assess both the positive and negative aspects of financial conditions and current events for business endeavors. Table 3 is an attempt to provide a qualitative summary evaluation of business conditions based on SABER's findings in terms of five variables: Political Stability, GDP Growth, FDI, Trade Balance (also see Table 2), and Business Climate. The evaluation, noted as a broad-stroke view, delineates: (1) a positive and upward trend where conditions are increasing; (2) a holding pattern with the same, unchanged, and/or mixed trends; and (3) a downward, more negative, decreasing, and/or problematic situation for conducting business. These relate back to the findings in the country reports, sub-region evaluations, and statistical indicators to form a usable package of business considerations that are data-based and researched for the scholar, businessperson, and student.

**Table 3 Summary Business Environment 2010<sup>1</sup> (Source SABER 2011, 2011:1, 15)**

<b>GDP Rank 2010</b>	<b>Country</b>	<b>Political Stability</b>	<b>GDP Growth</b>	<b>FDI</b>	<b>Trade Balance<sup>2</sup></b>	<b>Business Climate</b>
1	South Africa	↔	↑	↑	–	↔
2	Nigeria	↔	↑	↑	+	↔
3	Angola	↔	↑	↑	+	↔
4	Sudan	↓	↑	↑	–	↔
5	Kenya	↑	↑	↓	–	↑
6	Ethiopia	↔	↑	↑	–	↔
7	Tanzania	↑	↑	↔	–	↔
8	Cote d'Ivoire	↓	↓	↓	+	↓
9	Cameroon	↔	↑	↑	–	↔
10	Ghana	↑	↑	↑	–	↑
11	Uganda	↓	↑	↑	–	←
12	Zambia	↔	↑	↑	–	↑
13	Eq. Guinea	↔	↑	↑	+	↓
14	Senegal	↔	↑	↑	–	↔
15	DR Congo	↓	↑	↓	–	↓
16	Gabon	↓	↑	↓	+	↔
17	Botswana	↑	↑	↓	–	↑
18	R. of Congo	↓	↑	↑	+	↔

19	Namibia	↑	↑	↓	–	↔
20	Mozambique	↓	↑	↑	–	↔

<sup>1</sup> ↑ (up, increasing), ↔ (same, mixed results), ↓ (down, problematic)

<sup>2</sup> + Exports > Imports; – Imports > Exports

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## Foreign Direct Investment by Southern Multinationals: The Case of African Firms

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*Foreign direct investment between countries from the south accounts for over one-third of all FDI going to developing countries, and this is growing apace. Neoclassical type theories on factor movements, endowments and proportions fail to identify these types of investments occurring. Later conceptual frameworks were able to identify the fact that many other factors are important for these flows to take place. This type of south-south flows could only be good for less developed countries in their poverty reduction programmes because these flows would typically assess very poor and remote areas. Among such flows, African firms are now beginning to participate in this growing phenomenon by investing directly in other African and non-African countries. This paper reveals that south-south FDI is characterized by investments that are intra-regional, concentrate in a few industries and are mainly motivated by market access and strategic assets like natural resources. These characteristics hold even more when we consider African FDI. We conclude that intraregional FDI in Africa is quite limited and fails to exploit the vast range of opportunities created by their efforts at liberalization and economic, social and political stability.*

### Introduction

Foreign Direct Investment (FDI) is widely considered one of the prime engines of economic growth and development for less developed countries (LDCs) like those in Sub-Saharan Africa (SSA) that suffer from lack of investable capital and chronic poverty, and many of these countries are actively seeking to enhance their economies by attracting the flow of FDI into this region. Although FDI is concentrated in the industrialised countries, South-South FDI (SSFDI) has become a growing phenomenon in the last two decades and now forms a significant proportion of FDI in developing countries. In fact, investment flows from developing countries continue on their upward trend and reached an estimated \$210 billion in 2010. This followed the 2009 figures when FDI declined by 28 percent to \$149 billion following a **record** \$207 billion in 2008. The 2010 flows represent a share of developing country in global FDI outflows of 18%, almost double the 10% average of the previous three years (Aykut, 2011). While developed countries remain the main sources of FDI inflows to the South, investment from developing economies such as China, India, Malaysia and South Africa is on the rise in both relative and absolute terms. In addition, investments from the GCC countries in African LDCs have recently increased in sectors such as telecoms, tourism, finance, infrastructure, mining, oil and gas, and agriculture.

About fifteen years ago, capital flows between developing nations was at most insignificant, where SSFDI amounted to a meagre \$15 billion. Over this time, as illustrated above, a noticeable dynamism in FDI has come from the developing countries themselves who are emerging as outward investors. By the end of 2010, that number had more than tripled. Even though a trifle compared with the level of global FDI, the rate of growth of SSFDI is five times faster than the conventional north-south flow. Today, more than one third of the capital flows into developing nations now comes from fellow developing nations, doubling the amount of a decade ago.

Between 1996 and 2009, usually a pre-cursor to FDI flows, South-South trade grew at an average of 12% per year, 50% faster than North-South trade. Such trade now accounts for around 20% of global trade and over half of developing country trade. South-South FDI has also been growing rapidly, at perhaps 20% per annum over this same period, albeit from quite a low starting point; it now accounts for around 10% of total FDI flows. Moreover, while rich countries remain the main source of

remittances for LDCs, migration between developing countries is now larger than that from developing to OECD countries (UNDP, 2010).

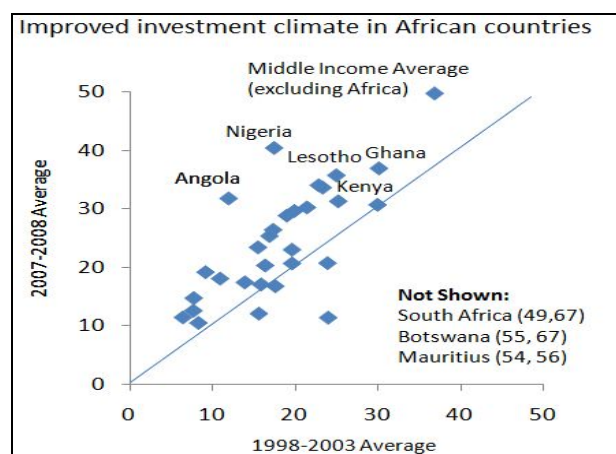
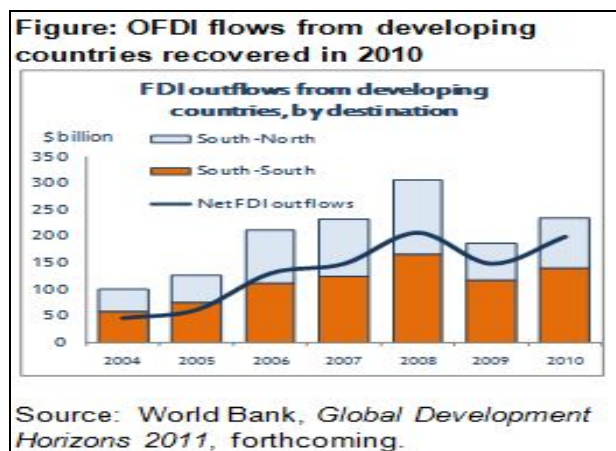


Figure 1: FDI from LDCs by destination and investment climate in Africa

This surge in SSFDI has been attributed to closer economic integration, which has been accompanied by increased South-South cooperation. This covers a wide range of activities and initiatives whose rationale was laid out by the G77 in its Marrakech Declaration of 2003 (UNDP, 2010). Another view is that Southern multinational enterprises (SMNEs) are more familiar with challenging investment climates and are better equipped to deliver products and services tailored to low income consumers. (Battat and Aykut, 2005). These companies are emerging from unlikely latitudes to grab sales from more-famous brands, often using their homegrown experience with Third World obstacles, from corruption to red tape and bad roads, to succeed in foreign emerging markets. The rise of aggressive developing-world multinationals also signals a significant shift in the way traditional poor nations regard one another; not merely as rivals in the scramble for rich-world consumers or recipients of foreign aid, but as participants in the global economy.

The rest of this paper is presented as follows; section 2 discusses the theoretical underpinnings of foreign direct investment generally and in the context of southern and African multinationals. Section 3 looks at the geographical and industrial characteristics of south-south FDI flows; while section 4 discusses the state of Africa as a source of FDI flows. Section 5 summarizes and concludes the study.

### Theoretical Underpinnings of Foreign Direct Investment

Neo-classical theory explains international capital movements as a means of closing the savings gap in LDCs (e.g. Mundell, 1957; Chenery and Bruno, 1962) and we would expect capital to flow from the industrialized, capital rich to capital poor countries. This is because capital is scarce in LDCs like those in Africa, which should lead to profitable investment opportunities for capital in these countries, and there should be no outflows of capital from Africa, being capital deficient, or poor.

However, FDI represents control of productive activities as well as a flow of capital, and this is also influenced by other factors. International trade theory suggests that trade and FDI might be seen as substitutes, but as other factors affect FDI, such as technology and firm-specific assets, they may also be complements (Helpman, 1984; Markusen, 1984 and 1995; Brainard, 1994; Dunning, 2009). Examples of firm-specific assets are brand names, acquired through advertising or firm-specific knowledge, acquired through research and development (R&D). Based on this view, SSFDI, particularly African outward FDI would be quite limited, because foreign investors from the south undertake little research and spend very little on advertising, with the possible exception of South Africa.

With this recognition that there are several reasons for, and factors affecting FDI, than differences in factor endowments, factor proportions and factor prices, economists began to think of increasing returns or economies of scale, imperfect competition, the product life cycle and product differentiation alongside the traditional theory of comparative advantage. At the same time, FDI became endogenous in explaining international economic activities (see for example, Helpman, 1984; Markusen, 1984). This view suggests that SSFDI and specifically, African outward FDI (particularly intra-African FDI) will grow, as incomes in Africa rise and their economic structures become more similar.

Dunning, (1998, 2001) have explained the emergence of MNEs using an eclectic paradigm which embraces the Ownership-Location-Internalisation (OLI) framework for FDI to occur. MNEs need to have some of all of these for FDI to take place: Firm specific asset that differentiates them from domestic firms to compensate for the extra costs in terms of local knowledge that they must incur to operate in foreign markets. These are also known as ownership (O) advantage. They must also possess an internalisation (I) advantage to internalise business contacts and operations between its subsidiaries and affiliates, but within the organisation as a whole, and not to outsource. In addition, they invest in one country rather than another because of the country's locational advantage (L). The OLI framework explains FDI based on ownership-specific advantages of the firm, internationalisation incentives and locational advantages. Dunning then defines what motivates firms to invest abroad: market-seeking (firms that serve market through investment rather than through exports or licensing); efficiency-seeking (firms using low labour costs, economies of scale, etc); natural resources-seeking; and strategic asset-seeking (seeking technology, skills or take over brand names, etc).<sup>9</sup>

Dunning's eclectic paradigm suggests that African investors are more likely to invest in order to seek markets or for strategic reasons, and especially the latter is more likely to be outside of Africa. Africans are less likely to invest outside Africa for efficiency reasons because it has relatively low wages, although there could be a disparity. They are also less likely to invest out of Africa for natural resources as it has an abundance of this. We also need to take into account policy factors such as trade, investment and privatisation; as these have changed dramatically and continue to do so within Africa.

Aykut and Ratha (2003) discuss some of the factors that explain the rise in South-South FDI, which fall into the various motivations and advantages discussed above, and could serve as a push or pull factor for SMNEs. These factors include rising wealth in, growth of and large southern markets, the rising cost of labour in industrialized countries and the breaking up domestic monopolies (including privatisation). The transfer and diffusion of new technology and communication systems, with improved information sharing and reduced transaction costs have increased international capital flows, particularly FDI. In addition, the sourcing of strategic resources and the desire to procure

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<sup>9</sup> See Cleeve (2009) for a discussion of these motives in an African context

inputs such as oil have motivated investors to the south, including Africa, where capital liberalisation regarding outward FDI and reduction in trade barriers continues to take place. Regional trade agreements, government policies encouraging outward FDI, geographic proximity and, ethnic and cultural ties have all encouraged increased intra-regional investment flows. Further motivations have come from the south by way of large supply of cheap labour, abundance of raw materials, incentives in host countries and preferential treatment of foreign firms.

### **Characteristics of South-South FDI Flows**

South-south FDI share common characteristics, particularly in their regional and industrial distribution. This is by no means surprising, given that most of them also share common factor endowments and economic constraints; therefore finding it easier to operate under similar conditions. In this paper we will only discuss these two characteristics, while others will be implied in these discussions.

#### *The Regional Distribution of SSFDI.*

Despite their geographic and institutional differences, most MNEs tend to invest regionally and in other LDCs before venturing out to the rest of the world. They tend to invest close to their home country and where they have acquired a certain familiarity through trade, or ethnic and cultural ties.<sup>10</sup> Increasing openness to capital and trade (South Africa is a typical example in the SADC area; Nigeria in ECOWAS) – in particular, the progress in privatisation of state-owned enterprises– have provided opportunities in LDCs and have played an important role in the recent rise in SSFDI. For example, Companies from India and China have been particularly active in Asian countries; SMNEs from South America, such as Chile, Brazil, and Argentina expanded their operations mainly in other developing countries in the region. In addition, South African investments in other LDCs are almost completely in the Southern part of Africa – SADC countries (Aykut and Goldstein, 2006).

There is also some indication that strong economic and cultural ties play a role when these companies invest in developed countries. For example, almost all FDI outflows from Latin America to high-income OECD countries went to the US and Spain. Major investment destinations for East Asian investors are Korea and Australia. Furthermore, the UK receives 40 percent of African – mainly South African – investments to high-income OECD countries.

Despite the advantages of intraregional investments, there are clear indications that southern multinationals are increasingly venturing beyond their immediate region. For example, in 2004 about half of China's outward FDI went to natural resources projects in Latin America and more recently to Africa; Malaysia has emerged as a significant source of FDI in South Africa (Padayachee and Valodia, 1999); and Brazil has considerable investments in Angola and Nigeria (Aykut and Goldstein, 2006). By 2010, China's involvement in natural resource projects in Africa amounted to \$14 billion. These are mainly in countries like Nigeria, Ghana, Sudan; Angola and the republic of Congo.

#### *Sector/Industrial distribution of SSFDI.*

The industrial distribution of SSFDI (i.e. the industries in which SMNEs operate) is relatively limited when compared to FDI from their northern counterparts. Information on industry-source country distribution of SSFDI is quite problematic. However, available evidence indicates that SSFDI flows are highly concentrated in the services and extractive sectors, as developing country firms have been actively participating in large privatisation, and Mergers and Acquisitions (M&A) deals in these sectors (telecommunications, infrastructure, banking and finance, mining, etc). Data on cross border M&A deals completed by developing and transition countries in 2004 reveal that in value terms SMNEs accounted for 47% of regional activity in Africa, for 13% in Latin America, 24% in Asia and Oceania, and 25% in South East Europe and CIS (UNCTAD, 2005). In developing countries,

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<sup>10</sup> This trend is also typical of some advanced, industrialized countries, such as Japan in the SE Asian region.

Southern investors accounted, in terms of value, for 27% of activity in energy and 18% in water, versus 59% in transport and 51% in telecom (PPIAF, 2005; Aykut and Goldstein, 2006).

The progress in the liberalisation and privatisation of the services sector has been an important factor in the recent surge of South-South FDI flows. The privatisation of state-owned assets in the infrastructure sector has provided great opportunities for LDC firms to acquire important assets both domestically and expand regionally. The services sector often requires greater proximity between producers and consumers and favours cultural and ethnic familiarity, which may generate synergies for LDC firms and encourage cross border investment. (Aykut and Goldstein, 2006)

Firms from the south have emerged as significant investors in the telecommunications sector. This has been so, particularly since 2001 as local and regional operators and investors have begun to fill the significant gap left by some of the traditional G7 operators from infrastructure projects in the developing world (PPIAF, 2005). Intra-regional South-South FDI in 1990-2003 has been as high as 49% in sub-Saharan Africa and 48% in North Africa and the Middle East (Guislain and Zhen-Wei Qiang, 2006).

The relatively low fixed-line telephone penetration in Africa and the Middle East, and the large population in these regions, have made them the world's fastest-growing markets for mobile telephone services. In sub-Saharan Africa, Vodacom (a joint venture between Telkom (SA) and Vodafone (UK), and MTN jointly have more than 200 million subscribers outside of South Africa (BusinessDay, 28/10/11). The Orascom Group (Egypt) is one of the Arab world's largest MNEs in the same sector. Other operators are also raising their investment profile, such as the UAE's Etisalat (in Saudi Arabia, West Africa, and Pakistan), Kuwait's Mobile Telecommunications Company (in the Gulf and Africa), Qatar Telecom (in Oman), and Dubai Tecom Investments (in Malta and Tunisia). (see Aykut and Goldstein, 2006)

### **Multinational Enterprises from Africa**

As African countries continue to look to FDI to stimulate their economies and alleviate poverty, a number of important questions are being asked. Why have Africa attracted so little of the ever growing world FDI? How appropriate are these flows for Africa's needs and economic characteristics, given their (FDI's) low level of impact? These questions have been extensively explored by the FDI literature, but with little consensus. Many believe, however, that differences between home and host countries in their culture and resource endowments (e.g. wider technological gap) are responsible for this low impact (see for example, UNCTAD, 2005; World Bank 2006). While many Northern MNEs see Africa as a financial risk, that spans from yellow fever to collapsing currencies, corruption and kidnappings, African MNEs share common information set with the countries they do business in and it's not the absolute amount of risk that is important to them but the ability to bear it better than anyone else. In fact, it is the potential market next door, and they often start close to home. Many of these MNEs from Africa use their own local experience with African obstacles - from corruption to red tape, bad roads and blackouts - to succeed in other African markets (Goldstein, 2006). They are therefore more likely to operate in ways that would help eradicate one of the basic problems of the region, poverty.

Some of the factors that would incentivize African countries to become an FDI source or destination or both are summarized below. Prominent among these is the fact that Africa is now growing faster than any other regions and investors are likely to take advantage of the increasing wealth being created. On the other hand, African countries with higher growth rates are now receiving more intra-African FDI than those with slower growth. This high growth coupled with a large market have seen some of these countries receiving the lion share of all FDI destined for the region. This is also reflected in intra-African FDI, since the majority of African markets are relatively small.

The liberalization of trade and investment is said to be one of the motives behind higher FDI flows. With a relatively higher rate of tariff for many African countries than elsewhere, this would encourage

intra-African FDI. But as tariffs come down and with the growing importance of integration in Africa, which have further reduced intra-African barriers, have further increased this incentive and create competition from outside the region. Further, the high cost of transport in intra-African trade means that there is still further incentive to invest in or near to markets. Investment complementarity with trade suggests that as African trade expands into markets, investment would follow.

Regionalisation both in Africa and in the potential destinations for its trade and investment increases the size of their markets, increasing the incentives for intra-African investment. On the contrary, regionalisation may reduce differences in growth rates, factor prices, or policies among neighbours, reducing incentives for investment. Many African countries have seen changes in investment policy, including bilateral and regional investment treaties, and privatisation policy, almost all towards a more liberal stance towards FDI and these have positively affected intra-Africa FDI.

Common regional characteristics are a well-studied positive influence on trading patterns, because they lower the information costs of entering new markets; this gives African companies an added localisation advantage over non-African countries in African destinations. This is particularly important for countries in Africa where conventional risk rating and country evaluation is less common, less comprehensive and more subjective than elsewhere. Only a few countries like South Africa, Mauritius and Botswana are getting regular coverage (African Development Report 2003). There are also general potential influences on African investment, which could help explain its direction (Page and Te Velde 2004).

Based on some of the factors discussed above, the table below shows some major African investors in and outside the region. It suggests the primary motivations behind the move to participate in foreign economic activities and the industries in which they are involved. In addition, the table shows that FDI by Africans are basically intra-regional.

The extent of intraregional FDI in Africa is limited. Judging from data on FDI projects, intra-regional FDI accounts for only 5 per cent of the total in terms of value and 12 per cent in terms of number. The large share accounted for by FDI projects within sub-Saharan Africa suggests that South African investors are playing a large role. The pattern indicates that aside from South Africa, which has an exceptional propensity to invest regionally, intraregional FDI is particularly underdeveloped in Africa.

From a development perspective, the lack of intraregional FDI is suggestive of a missed opportunity. Geographical proximity and cultural affinity are thought to give regional MNEs an advantage in terms of familiarity with the operational environment and business needs in the host country. From the host country's point of view, developing country MNEs are likely to be in possession of more appropriate technologies – with a greater potential for technology transfer – and better able to address the needs of local consumers, especially the poor (UNCTAD, 2011).

Table 1: Selected major FDI by African multinational firms

Country/Firms	Selected Host Countries	Industry/sector	FDI Motivation	Notes
<i>South Africa</i>				
MTN	Nigeria, Ghana, Cameroon, Uganda, Swaziland	Telecommunication (Mobile service)	Market-seeking	active in 21 countries; spread across Africa
Shoprite Checkers	Namibia, Nigeria, Zimbabwe, Zambia, Tanzania, Uganda	Retail (Food)	Market-seeking	16 countries in Africa More than 400 shops
Massmart Holdings Ltd. (13 African countries)	Botswana 11 Nigeria 1 Ghana 1 South Africa 302 Lesotho 2 Swaziland 1 Mauritius 1 Tanzania 1 Malawi 2 Uganda 1 Mozambique 17 Zambia 1 Namibia 3	Retail (general) Consumer goods	Market-seeking	Wal-Mart (majority owner)
SABMiller	Global including: Africa, China, India, Australia, Europe	Food and Beverages	Market-seeking Strategic asset-seeking	31 African countries (41%) Took over Foster group in Australia (200.....)
BHP Billiton (JV)	Global including: Algeria, South Africa, Australia, Singapore	Mining	Market-seeking Strategic asset-seeking	
AngloGold Ashanti	Global including: South Africa, Ghana, Guinea, Mali, Namibia, Tanzania, Argentina, Brazil	Mining	Strategic asset-seeking	21 operations on four continents
<i>Nigeria</i>				
Transnational Corporation of Nigeria Plc (Transcorp)	Nigeria,	<b>Energy Agribusiness Hospitality</b>	Market-seeking Strategic asset-seeking	
Union Bank of Nigeria	Nigeria, UK, Benin, Ghana, South Africa	Financial Services	Market-seeking	
Globacom Limited	Nigeria, Benin, Ghana, Ivory Coast	Telecommunications	Market-seeking	
<i>Togo</i>				
Ecobank	Benin, Cameroon, Côte d'Ivoire, Gabon, <b>Ghana</b> , Kenya, Malawi, Mali, <b>Nigeria</b> , Senegal	Financial Services	Market-seeking	30 countries, mainly in West and Central Africa, France Dubai
<i>Ghana</i>				
Ashanti Goldfields Corporation	Ghana, Guinea, Tanzania, Zimbabwe	Mining	Strategic asset-seeking	
<i>Kenya</i>				
Comcraft Group	Kenya, Tanzania, Uganda, Ethiopia, UK, Singapore, Canada	Manufacturing: steel, plastics, and aluminum products	Market-seeking Strategic asset-seeking	Operations in 45 countries worldwide
Kenyan Commercial Bank	Kenya <b>Rwanda, Sudan, Tanzania, Uganda</b>	Financial Services Banking	Market-seeking	
East African Breweries Limited	Kenya, Tanzania, Uganda,	Alcoholic Beverages Glass Manufacturing	Market-seeking	
<i>Egypt</i>				
Orascom Telecom Holding	Algeria, Egypt, DR Congo, Burundi, Namibia, North Korea, Canada, Zimbabwe	Telecommunications	Market-seeking Strategic asset-seeking	Operating GSM networks in the Middle East, Africa, Canada and Asia.

Source: Compiled from various sources, over the period 2010-2011.

Indeed, there is some anecdotal evidence of regional FDI bringing positive development impacts to host countries in Africa. For example, investments from foreign farmers have played a role in revitalizing agriculture in Zambia. Mozambique has offered generous incentives to foreign farmers to invest, and other countries have considered similar packages (e.g. Kenya, Nigeria, the United Republic of Tanzania and Uganda (Mail and Guardian, 2010).

The scope for joint ventures between domestic and foreign partners in the African context is often constrained by the absence of domestic partners with the required technical and financial capacity. In manufacturing, Coleus Crowns (Uganda) provides a successful example of a joint venture at the intraregional level. It is a joint venture between the Madhvani Group (Uganda) and Coleus Packaging (South Africa), which began production of bottle crowns in 2007. Since then, it has succeeded in establishing itself as a supplier to major MNEs such as Nile Breweries (an affiliate of SABMiller), Pepsi Uganda and Coke Uganda. It also serves the regional markets in Burundi, Rwanda and the Sudan.

In services, some African TNCs in telecommunications and banking have actively engaged in regional expansion. Leading players in the region's telecommunications industry include MTN (South Africa), Orascom (Egypt) and Seacom (Mauritius). In the financial industry, a number of banks based in Nigeria and South Africa have established a regional/subregional presence. Nigerian banks have a reputation of bringing in innovative services to neighbouring countries in West Africa, and many of the leading banks have an extensive presence throughout the region.

In spite of these successful instances, the extent of intraregional FDI is limited. There is a paucity of disaggregate data on the source countries of FDI in Africa, but such data as are available reveal intraregional FDI in Africa to have a skewed and underdeveloped nature. Most of the intraregional flows are attributable to investment from South Africa in neighbouring countries in East and Southern Africa. Countries with high shares of intraregional FDI flows/stock (i.e. Botswana, Malawi, Morocco, Mozambique, Namibia and the United Republic of Tanzania) are those in which investors from South Africa are active, primarily in natural resource-related industry. For South Africa, the importance of Africa in its outward investment has increased over time. The share of Africa in its outward FDI stock rose from 8% in 2005 to 22% in 2009.

Given the geographical proximity and cultural affinity, there ought to be potential for diverse intraregional FDI in terms of industry and source country. However, available country-level evidence indicates that the actual picture in this regard is very mixed. For instance, Senegalese FDI in the Gambia is relatively diverse, covering finance, manufacturing, real estate, wholesale and retail. In contrast, outward FDI from Nigeria is concentrated in finance. In the United Republic of Tanzania, FDI from Kenya is diversified into various manufacturing, finance and service activities, while FDI from South Africa has mainly been in mining, although the greater value of investment projects in mining obscures the significant number of investment projects in other sectors (Bhinda and Martin, 2009).

The current situation calls for more efforts to encourage FDI at the regional and subregional levels. Various subregional initiatives have been introduced to this end. The Free Trade Area of the Southern African Development Community (SADC) was established with the objective of promoting, among other activities, FDI and domestic investment, by creating a larger single market (Rwelamira and Kaino, 2008). SADC has concluded a Protocol on Finance and Investment, which sets out the legal basis for regional cooperation and harmonization in the area of finance, investment and macro-economic policy. SADC also has a "services protocol", though not yet in force, which would also have implications for FDI. The East African Community (EAC) has discussed the need to promote FDI into the subregion, but there seems to be no well-developed structure in place to promote intra-subregional FDI.



There are also initiatives to promote FDI between the regional groupings, most notably by the Common Market for Eastern and Southern Africa (COMESA) (Fujita, 2009; UNCTAD, 2008). Its Common Investment Area is aimed at promoting intra-COMESA and international FDI into infrastructure, information technology, telecoms, energy, agriculture, manufacturing and finance.

One major problem with regional groupings in Africa is their proliferation, which results in overlaps and inconsistencies. There are about 30 regional trade agreements in Africa, with each country typically belonging to several such groupings. Recognizing this, COMESA, EAC, and SADC started a process to enhance integration among their members in 2008 (Brenton et al., 2011). The harmonization of Africa's RTAs, and accelerated and closely coordinated planning with respect to FDI, would help Africa to achieve its full intraregional FDI potential.

## **Conclusions**

To benefit from South-South FDI, developing countries, whether host or home to FDI, need to pursue investment climate reforms. A confluence of factors, including increases in wealth, the liberalization of trade and investment, and regional integration have led to many developing countries becoming a significant source of FDI, particularly to other developing countries.

In their search for new opportunities, Southern multinationals tend to invest close to their home country and where they have acquired a certain familiarity through trade, or ethnic and cultural ties. As a result, there is a significant regional aspect to most South-South FDI flows.

However, there are indications that Southern MNCs are increasingly venturing beyond their immediate region. Latin American and Asian investments are finding their way into Africa, Asian investments are entering Latin America, and Latin American investments are entering Asia. More recently, Chinese and Indian firms have acquired high value assets in the US and EU countries.

When it comes to future investment strategies Africa is high on the list of global investors, with 42% of the businesses surveyed Ernst and Young (2011), considering investing further in the region and an additional 19% confirming they will maintain their operations on the continent. Those companies that have invested and already integrated Africa into their overall investment strategy are particularly positive.

FDI has a particularly important role to play as a future source of long-term capital for reinvestment in infrastructure initiatives and as an accelerator of sustainable growth across Africa. Although Africa's share of global FDI has grown over the past decade, the volume does not reflect the increasing attractiveness of a region that has one of the fastest economic growth rates and highest returns on investment in the world.

While investors from developed markets are relatively more cautious and sceptical about Africa as a prime investment location, they still represent the largest proportional investment into Africa and, critically, this investment is going into a diverse range of sectors beyond natural resources. However, they still view the extractive industries as a major area of investment perceiving it to be the sector with the greatest growth potential over the coming years. Other areas receiving greater attention are; tourism, consumer products, construction, telecommunications and financial services (see Table 1 above)

This is an opportunity for African markets to position themselves appropriately in this shifting landscape to accelerate growth and development and avoid getting left behind (again) by other emerging markets and regions. The African growth experience in the last decade is underpinned by a longer-term process of economic and regulatory reform, which has occurred across much of the continent. These include a period during which inflation has been brought under control, foreign debt and budget deficits reduced, state-owned enterprises privatised, regulatory and legal systems strengthened, and many African economies opened up to international trade and investment.

Analysis of the projects shows that investment success stories are spread across the Continent. Ten African countries attracted 70% of the new FDI projects in Africa between 2003 and 2010 (South Africa, Egypt, Morocco, Algeria, Tunisia, Nigeria, Angola, Kenya, Libya, Ghana). There has also been a significant growth in intra-African investment, growing by 21% between 2003 and 2010. However, the amount of capital involved remains less than that provided by other emerging economies (e.g. China, India).

There are parts of the African continent where there are real and perceived barriers to investment due to political instability, slow growth and corruption. These are obvious challenges to those investing in Africa and Africans themselves that need to be addressed. We, however, believe that Africa is on a sustainable growth path and that FDI rates will grow steadily. However, to accelerate and take advantage of this growth process, governments and investors, foreign and domestic, should take immediate action to eradicate the many obstacles that would affect the realization of these opportunities.

In addition, there should be changes in strategy to obtain better access to technology, distribution channels or other inputs. This would lead to African outward FDI for competitiveness reasons. Firm-specific assets, such as technology or management skills, is now emerging in some African firms, increasing their propensity to invest abroad.

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## **Private Capital Flows and Economic Growth in Africa: The Role of Domestic Financial Markets**

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*This study examines the relation between private capital flows and economic growth in Africa during the period 1990 – 2007. We estimate the empirical relation with a panel Instrumental Variable Generalized Method of Moments (IV-GMM) estimator which allows for arbitrary heteroskedasticity. Decomposing private capital flows into its component parts, we find that foreign direct investment, foreign equity portfolio investment and private debt flows all have a negative impact on economic growth. Countries with strong domestic financial markets, however, benefit more by being able to transform the negative impact of private capital flows into a positive one. Private capital flows, thus, promote economic growth in the presence of strong domestic financial markets. These results suggest that strong financial markets are needed for private capital flows to impact economic growth positively. Our results are robust to the control of population size, savings, financial openness and institutional quality.*

### **Introduction**

Most African countries experienced anaemic growth after independence in the 1970s through to the early 1990s. Easterly and Levine (1997) described Africa as a growth tragedy. It must be noted, however, that the growth dynamics in Africa have changed since the early 1990s. Many of the world's fastest growing economies are now in Africa and most African countries are growing faster than countries in the developed world and are experiencing growth rates higher than the world average. With a world economic growth rate of around 4%, the International Monetary Fund (IMF) forecasts that sub-Saharan Africa's GDP will grow by 5.25% in 2011 and 5.75% in 2012 (IMF, 2011). All major capital flows to Africa have increased considerably since 1980, especially FDI, which increased eightfold over the period 1980 – 2003 (UNECA, 2006).

Although private capital flows on the whole have risen sharply, there are important variations in the growth of the various components of capital flows. For example, the growth in FDI has outpaced the growth in Foreign Portfolio Investment (FPI) and debt flows with each component having a potentially differing impact on economic activities in Africa. Consequently, this paper examines how the various components of private capital flows help resolve the African growth tragedy lamented by Easterly and Levine (1997). Using capital flows data from 14 African countries over the period 1990 to 2007, our initial results indicate that private capital flows and its individual components all have a negative impact on economic growth. The evidence that private capital flows exert negative impact on economic growth in Africa is consistent with the findings in Soto (2000) and Durham (2004). Alfaro *et al.* (2004) provide evidence that strong financial markets are necessary institutions that a country must have for FDI to positively influence economic growth. They document that countries with good domestic financial markets benefit more from FDI inflows. Apart from FDI, Alfaro *et al.* (2004) do not examine how domestic financial markets interact with the other forms of private capital flows to determine a country's growth. Further, Macias and Massa (2010) examine if slowing capital flows due to the recent global financial crises is likely to reduce economic growth in Africa. They find

that FDI and cross border bank lending exert a positive and significant impact on economic growth however they fail to take into consideration the fact that financial markets may act as an intervening factor for private capital flows to spur growth. It is important to note that whilst Choong *et al.* (2010) show that financial markets matter in the link between capital flows and economic growth, they focus solely on stock market indicators.

Consequently, we extend our initial analysis to examine whether the presence of good financial markets is necessary for private capital flows to have the desired effect on economic growth. Our approach is innovative and different from Alfaro *et al.* (2004), Macias and Massa (2010) and Choong *et al.* (2010) because we interact private capital flows with proxies for both stock market and banking sector development. We find that, indeed, having a well developed financial market is a necessary condition to transform the negative effect of private capital flows into a positive. The results suggest that in the absence of a well developed financial market, private capital flows are unlikely to improve economic growth. We obtain stronger results, when we interact FDI with financial markets compared to the interaction with the other components of private capital flows and financial markets. This likely point to the more desirous nature of FDI flows. However, our results suggest that countries with good financial markets can also benefit even from EFPI and debt flows.

Our work contributes to the growing literature that examines the effect of capital flows on economic growth by examining how the various components of capital flows and total capital flows influence growth using a broad array of financial market indicators (both bank and stock market based indicators). We test our hypothesis using African data which has been neglected in this area of investigations. Broadly, we find that, indeed, having a well developed financial market is a necessary condition for private capital flows to impact economic growth. The evidence in this paper suggests that in the absence of a well developed financial market, private capital flows are unlikely to improve the much need economic growth in Africa.

The rest of the paper is structured as follows: Section 2 examines the extant literature on capital flows and economic growth, Section 3 details the methodology employed in the empirical analysis, in Section 4 we present the results from our empirical estimations and finally in Section 5 we conclude the paper.

## **Overview of related literature**

The popular theories that explain economic growth include the Schumpeter theory on economic growth, the Solow-Swan (neo-classical) growth theory and endogenous growth theories. According to the Schumpeterian view, finance affects the allocation of savings and improves productivity growth and technological change (Beck *et al.*, 2000). In this framework, financial markets allocate savings (which may be partly from foreign capital flows) and finance innovations which may be due to new technology introduced by foreign firms. Therefore foreign capital flows improve capital accumulation and technology diffusion thus promoting economic growth. Financial markets improve the liquidity and tradability of assets in an economy, provide opportunities for economic agents to diversify risk, reduce information asymmetry by collecting information on deficit units, promote savings mobilization and the attraction of foreign capital and improve the corporate governance of firms. Thus by performing these functions financial intermediaries aid the process of economic growth. Previous studies provide empirical support to theoretical predictions that finance should exert a positive influence on economic growth (King and Levine, 1993; Beck *et al.*, 2000; Allen and Ndikumana, 2000; Adjasi and Biekpe, 2006; Romero-Avila, 2007; Manu *et al.* 2011; Kendall, 2012).

In his classic 1956 article Solow proposed that we begin the study of economic growth by assuming a standard neoclassical production function with decreasing returns to capital (Mankiw *et al.*, 1992). The neo-classical theory predicts that countries with higher savings and lower population growth rates will grow at a faster pace (see Mankiw *et al.*, 1992). Therefore in this framework, foreign capital should affect the savings rate which in turn affects economic growth.

Beginning in the 1980's economists became increasingly dissatisfied with the neo-classical theory because it had a poor fit when confronted with cross country data and because in this model growth was determined outside of the model. These economists therefore sought to build a model that internalized the growth process. They therefore propounded a model where growth was endogenous to the system. In a simple endogenous growth model, capital flows can promote growth by increasing the domestic investment rate, by leading to investments that are associated with positive spillovers, and/or by increasing domestic financial intermediation (Bailliu, 2000). Further, even if two countries receive an equal amount of net capital inflows, this model predicts that the country with the more developed financial system will have a higher growth rate, because its financial sector is more efficient at converting the foreign funds into productive investments, and better able to allocate them to the most productive investment projects.

Using panel data for 40 developing countries from 1975–95, Bailliu (2000) finds evidence that capital inflows foster economic growth, above and beyond any effects on the investment rate, but only for economies where the banking sector has reached a certain level of development. Soto (2000) finds that FDI and EFPI flows exhibit a positive, significant and robust correlation with income growth in developing countries whereas short and long-term bank related inflows show significant negative correlation with growth. However, the negative relationship holds only when domestic banks have low capitalisation ratios. Durham (2004) finds that the positive effect of FPI on growth is contingent on financial development and legal variables or comparative institutions. In particular, they find that FPI inhibits growth in countries with comparatively small equity markets and pervasive corruption.

Choong *et al.* (2010) investigate how FDI, portfolio investments and foreign debt flows promote economic growth in developed and developing countries through the channel of domestic stock markets. They find that portfolio investment and foreign debt have a negative effect on growth whilst FDI has a significantly positive effect. Even though portfolio investment and foreign debt have negative effects on economic growth, the coefficients of the interaction terms are positive and significant implying that the development of the stock market benefits the recipient country. Regarding the negative relation observed between debt flows and economic growth, Alfaro *et al.* (2010) suggest that the apparent 'puzzle' in the literature may be no puzzle at all. They explain that the data fits the neo-classical prediction better than previously thought and that the puzzling results emanate from the fact that the capitals flows data include financing from other sovereigns and aid data. They therefore conclude that sovereigns and official donors invest in low return countries, most likely for political considerations.

Broadly, the literature suggests that the positive impact of capital flows on growth may crucially depend on the level of development of financial markets in the host country. Theoretical predictions and empirical evidence suggests that financial development matters for economic growth.

## **Methodology**

### *Data*

We utilize data on 14 African countries covering the period 1990 – 2007. The countries used in the empirical analysis are Botswana, Cote D'Ivoire, Egypt, Kenya, Malawi, Mauritius, Morocco, Namibia, South Africa, Swaziland, Tanzania, Tunisia, Uganda and Zambia. We obtain all the data apart from the financial openness measure, the institutional quality measure and the bank credit ratio from the African Development Indicators online database published by the World Bank. Data on capital account openness was obtained from Chinn and Ito (2008). Financial openness ranges from -1.8312 to 2.5000 with higher levels indicating higher financial openness. We also obtained measures of civil liberties from Freedom House. The civil liberties index ranges from 1 -7 with higher levels of the index indicating lower institutional quality. The bank credit ratio is obtained from the World Development Indicators online published by the World Bank.

### *Empirical Model*

Our empirical model is similar to Durham (2004). We utilize a panel Instrumental Variable Generalized Method of Moments (IV-GMM) estimation allowing for arbitrary heteroskedasticity.

We specify our model as follows;

$$y_{it} = \beta_0 + \beta_1 Capflows_{it} + \beta_2 Finance_{it} + \sum_{j=3}^N \beta_j X_{it} + \varepsilon_{it} \dots\dots\dots(1)$$

where;

$y_{it}$  is real GDP in constant 2000 USD for country  $i$  in time  $t$ .

$Capflows_{it}$  is FDI, EFPI, private non-guaranteed debt flows and total capital flows for country  $i$  at time  $t$ .

$Finance_{it}$  represents indicators for financial market development for country  $i$  in time  $t$ . The financial markets variables used in the empirical estimations are the stock market capitalization ratio, stock market turnover, bank credit to GDP ratio, private credit to GDP ratio and the M2 to GDP ratio.

$X_{it}$  is a vector of information conditioning set for country  $i$  in time  $t$ . These determinants follow from the growth literature and include population, savings, financial openness and institutional quality and are included as control variables.

It is theoretically possible that the capital flows and financial market variables increase with the increases in the growth rate. We use an instrumental variable set for the capital flows and financial market indicators. We employ instruments for these variables because they may be endogenously determined with economic growth. The instruments used for the capital flows variables are one lag of the capital flows variable, exchange rate with the US\$ and exchange rate volatility. The instruments for the financial market variables include one lag of the financial market variable being estimated. In the case of the stock market indicators, we augment the lag of the financial market variable with the number of listed firms. For the banking indicators, we augment the lag of the financial market variable with the deposit rate. All instruments are employed at once making five instruments for each estimation.

$\varepsilon_{it} = v_i + \eta_{it}$ ; that is the composite error term.

Due to the fact that capital flows may not have an independent impact on economic growth, we also estimate a second equation to capture the interactive effect between capital flows and financial markets. The model closely follows that employed by Durham (2004) and Adjasi *et al.* (2012) and it is specified as follows;

$$y_{it} = \beta_0 + \beta_1 Capflows_{it} + \beta_2 Finance_{it} + \beta_3 (Capflows_{it} * Finance_{it}) + \sum_{j=4}^N \beta_j X_{it} + \mu_{it} \dots\dots\dots(2)$$

where;  $\beta_3$  represents the interactive effect between the capital flows variables and financial markets

$\mu_{it} = \phi_i + \sigma_{it}$  and  $\phi_i$  represent individual country effects

## Empirical Results

### Descriptive Statistics

Table 1 shows the descriptive summary statistics. The mean level of FDI scaled by GDP is 2.37%. The mean level of EFPI and private non-guaranteed debt are 0.29% and 0.10%, respectively. Therefore, the volume of FDI into Africa far outweighs that of EFPI and private non-guaranteed debt. The average stock market turnover and market capitalization ratios are 11.9 and 31.34% respectively. This compares to the average stock market turnover and market capitalization ratios of 64.46 and 84.29% for East Asia and the Pacific region over the same period. This suggests that Africa's capital markets are less developed compared to the East Asia and Pacific region. Average bank and private credit represents 46.40% and 35.46% of GDP respectively. This compares to bank credit and private credit ratios of 64.38% and 60.74% respectively for the East Asia and Pacific region over the same period. The M2 ratio which measures financial depth averages 38.82% of GDP. This compares to a

financial depth ratio of 70.48% for East Asia and the Pacific region. Banking systems in East and Pacific Asia show significantly more depth compared to Africa. As regards the financial market variables, Africa's banking sector exhibits more depth compared to the stock market.

The mean level of population is 16.1231. Musila and Sique (2006) noted that the savings rate in sub-Saharan Africa declined from 10.3 per cent during 1974-1980 to only 5.7 per cent during 1991-1996. The mean level of savings of 15.99% suggests a rebound in the savings levels in Africa. The mean level of financial openness of -0.2371 suggests that African economies are still relatively closed despite various reforms to liberalize their capital accounts. The mean level of the civil liberties index of 3.9563 suggests that institutions in Africa remain fairly weak.

**Table 1: Descriptive Summary Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI	234	0.024	0.030	-0.075	0.213
EFPI	252	0.003	0.011	-0.024	0.088
Debt	230	0.001	0.009	-0.024	0.081
Market capitalization	209	0.313	0.491	0.010	2.940
Stock market turnover	146	11.966	17.311	0.000	126.000
Bank credit	248	0.464	0.461	-0.730	1.980
Private credit	248	0.355	0.322	0.030	1.640
M2	249	0.388	0.239	0.060	1.010
Population	252	16.123	1.381	13.670	18.198
Savings	250	0.160	0.114	-0.050	0.560
Financial openness	248	-0.237	1.390	-1.831	2.500
Institutions	252	3.956	1.325	1.000	7.000

The table reports the descriptive statistics. FDI is foreign investment that reflects 10% or more of voting equity and is divided by GDP; EFPI is foreign investment in equity securities divided by GDP; debt represents external debt accruing to the private sector divided by GDP; the market capitalization ratio is the stock market capitalization divided by GDP; Stock market turnover is the stock market value traded divided by market capitalization; bank credit is domestic credit to the private sector provided by banks divided by GDP; Private credit is domestic credit to the private sector by banks and other financial institutions divided by GDP; M2 is liquid liabilities of the financial sector divided by GDP; population is the log of population size; savings is gross domestic savings divided by GDP; Financial openness is Chinn and Ito's (2008) measure of capital account openness; Institutional quality is the civil liberties index and is obtained from Freedom House.

### Regression Results

We now discuss the results from our empirical estimations. For each capital flow variable, we report ten different regressions. Five regressions report the effect of the capital flow variable and financial market development on growth. We run these five regressions because we use five financial market indicators and include one financial market indicator in the regressions at a time. A further five regressions report the effect of the capital flows variables and financial market development on growth taking into consideration the interaction between the capital flow variable and the financial markets indicators.

Table 2, presents the results on FDI and economic growth. The results suggest a negative relation between FDI flows and economic growth (see, Models 1, 2, 7, 8, 9 and 10). One plausible explanation is that FDI flows into Africa go mainly into natural resources (mainly oil) which have little linkages with the domestic economy (Akinlo, 2004). Also, FDI flows may crowd out domestic investment by pushing domestic firms out of the market. This is because foreign investors may borrow heavily from domestic financial markets thus reducing the amount of credit available to domestic firms. However, when we interact FDI with financial markets the negative influence of FDI on growth is transformed



into a positive one (see Models 2, 8 and 10). The results therefore suggest that FDI on its own is likely to have a negative influence on economic growth for African countries. However, countries with strong financial markets benefit more by being able to transform this negative impact of FDI into a positive one. Our findings are similar to Alfaro *et al.* (2004) who show that local financial markets play an important role in the link between FDI and economic activity.

Broadly, our results are consistent with the finance growth-nexus paradigm. The results suggest that financial development whether in the form of an advanced stock market or banking sector helps spur economic growth in Africa. Both stock markets and banks improve the liquidity and tradability of assets in an economy, provide opportunities for economic agents to diversify risk, reduce information asymmetry by collecting information on deficit units, promote savings mobilization and the attraction of foreign capital and improve the corporate governance of firms. In essence, financial development improves the process whereby scarce resources are channelled to the most productive sectors of an economy thereby promoting economic growth. Our results provide support for King and Levine's (1993) conclusion that finance does not merely follow economic growth but importantly Schumpeter's (1912) postulation that finance causes or leads economic growth might be right in the African context.

Further, we find population to be positively and significantly related to growth in all the estimated models. A large population seems to matter for growth because it contributes to a country's production and also stimulates high consumption for produced goods. In countries like the U.S, it is well known that consumer spending drives economic activity. Therefore, countries with a large population size benefit more by experiencing higher economic activity. We also find that the level of savings in a country contributes to its economic activity as it is mostly significantly positive in the estimated regressions. Savings are needed to finance investment projects. This is because savings represent funds that can be lent to deficit units through the financial system. Our results are consistent with traditional growth theories that postulate that savings matter for economic growth (Choong *et al.*, 2010).

Financial openness is also positive and significantly related to growth in all the regression estimates. This suggests that countries with more open capital accounts benefit more by experiencing higher economic activity. This is because financial openness makes it possible for these countries to receive foreign capital to add to their capital stock and achieve investment rates far above those attainable domestically. The results also suggest that institutions play a positive role in spurring economic activity (Alfaro *et al.*, 2004). The negative relation suggests that countries with stronger institutions experience higher economic growth. Institutional arrangements affect corruption, the independence of the judiciary, the rule of law, property rights, social interactions, legal systems, political freedoms and commercial arrangements. Obviously, all these matter for the growth outcomes of a country.

We estimate the effect of EFPI on economic activity and report the results in Table 3. Similar to the FDI results reported in Table 2, we find a negative relation between EFPI and economic activity (see Models 2 and 7). Again, in the absence of good financial markets, the results indicate EFPI negatively influences economic activity although not always significant. These results may be due to the potentially destabilizing effect that EFPI has on stocks markets due to its inherently volatile nature. Due to the fact that these investments are not bolted, foreign investors can easily withdraw their funds from the host economy if more attractive opportunities become available to them and at the least sign of trouble. For example, during the recent global financial crises, stock markets across Africa suffered significant declines because portfolio investors withdrew their funds from these markets. Countries with liquid stock markets can benefit from EFPI flows as shown by the positive and significant coefficient of the interaction term in Model 4. This is because the impact of EFPI on growth depends on the assumption that well functioning stock markets promote economic growth (see Pal, 2006). Similar to the results reported in Table 2, population, savings and financial openness have a positive effect on economic growth whilst institutions have a negative impact. The negative sign actually suggests that institutions matter for growth.

We report the effect of private debt flows on economic growth in Table 4. Consistent with the results in Tables 2 and 3, debt flows exhibit a significantly negative relation with economic activity in all models apart from Model 3. This comes as a surprise as we focus on debt accruing to the private sector. A negative relation between total external debt and economic growth is not surprising especially when a country is characterized by high levels of debt (see for example, Kumar and Woo, 2010; Imbs and Ranciere, 2009; Pattillo *et al.*, 2002, 2004). Alfaro *et al.* (2010) explain that the observed negative influence of debt on growth may be due to sovereign to sovereign lending and aid flows which are allocated based on factors such as political economy considerations. Rationalizing the negative effect of private debt flows on growth therefore becomes difficult. However, this may be due to the fact that foreign lenders lending to private firms in Africa are exposed to higher levels of information asymmetry. Like Choong *et al.* (2010) we find that advanced financial markets are able to transform the negative debt effect into a positive one as indicated by the interaction term (Model 2). The results therefore suggest that in the absence of a well developed financial market, debt flows are likely to be misallocated.

Finally, we present the result on total capital flow and economic growth in Table 5. Controlling for population, savings, financial openness and institutional quality, we find a negative relation between total capital flow and economic growth (see Models 1, 2, 6, 7, 8, 9, 10). This finding is not surprising as the various components of private capital flows exhibit a negative relation with economic growth. The negative effect means that private capital flows adversely affect a country's growth outcome. This result can be explained in the sense that capital flows tend to be volatile. Financial markets are able to transform this negative effect of capital flows into a positive one because they help to efficiently allocate foreign capital flows towards productive investments (see Models 2, 4, 8 and 10). The results therefore suggest that in the absence of well functioning domestic financial markets, private capital flows will have a damaging impact on economic growth. Our results are similar to Bailliu *et al.* (2000) who find that countries with advanced banking systems benefit more from private capital flows.

## Conclusion

This study examines the relation between the various forms of private capital flows and economic activity in Africa. Our capital flows variables include FDI, EFPI, private non-guaranteed debt and the aggregate private capital flows. In all the empirical analysis conducted, we control for population size, savings, financial openness and institutional quality as these factors matter for economic activity. We find overwhelming evidence that private capital flows have a detrimental effect on economic growth in Africa. However, we take into consideration the fact that capital flows may not have an independent influence on growth and interact the capital flows variables with financial market indicators.

The key issue that emerges is that capital flows may be detrimental in countries with relatively underdeveloped financial markets. Financial markets matter in the growth process because they help allocate foreign capital towards productive ventures. Also countries with weak financial markets may be more vulnerable to financial and exchange rate crises resulting in the outflow of foreign capital and lowering their long-term economic growth. Undeveloped financial markets therefore seem to frequently misallocate foreign capital. This study contributes to the literature on absorptive capacities. The findings suggest that financial markets are a necessary absorptive capacity for the private financial flows that we examine in the African context. The results imply that unfettered capital flows may have a negative impact on economic activity. Therefore, countries should endeavour to develop further their domestic financial markets to positively intermediate foreign capital flows to spur economic activity.

**NB: The regression results (tables) were not presented here. The results are available upon request from: Elikplimi Komla Agbloyor, [ekagbloyor@accamail.com](mailto:ekagbloyor@accamail.com)**

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## **Determinants of MNEs' ownership strategies: the case of subsidiaries in Syria and Jordan**

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*This paper provides a thorough analysis of location factors that affect foreign investors' ownership strategies when undertaking foreign direct investment (FDI) in Syria and Jordan. Drawing on a sample of three hundred and three foreign affiliates with distinguishing between two levels of ownership, this paper empirically examines the choice between a wholly owned subsidiary (WOS) and a joint venture (JV). A questionnaire was used to collect data from top management personnel of Multinational Enterprises' (MNEs) subsidiaries operating in Syria and Jordan. Based on extensive review of the literature, this study used main five constructs of location factors. These constructs are market factors (MF), institutional factors (IF), cost factors (CF), infrastructure and technological factors (ITF), and culture and social factors (CSF). This study conducted exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) to assess the validity of the constructs. A logistic regression analysis was used to test the hypotheses concerning the impact of location factors on the ownership strategies. Strong support has been found for the impact of market factors, institutional factors, and cost factors on the choice of ownership strategies of foreign investors, whereas, infrastructure and technological factors, and culture and social factors were found to have no influence. Available empirical evidence reveals that the main determinants of MNEs' decision regarding the choice between WOSs and JVs found in previous studies also affect the ownership structure of foreign affiliates in this part of the Middle East.*

### **INTRODUCTION**

FDI plays a 'vital' role in the long-term economic development of developing countries with its great potential to create jobs, raise productivity, enhance exports, and transfer technology (UNCTAD, 2003). It can contribute positively to the growth and development of developing countries by bringing capital, employment, technology, market access, and managerial skills (Blomstrom and Kokko, 1998; De Mello, 1997, 1999; Pack and Saggi, 1997; Balasubramanyam et al., 1999; Borensztein et al., 1998). One of the aspects that will help developing countries in accelerating or sustaining the pace of their economic and social development is to have good quality infrastructure (UNCTAD, 2008). That is because developing countries need FDI in infrastructure to reach their growth targets as they necessitate foreign capital in order to enhance their domestic savings (Ramamurti, 2004). Therefore, developing countries require urgent investments aimed to strengthen the infrastructure, industries and services in areas such as water, electricity, telecommunications, and transport (UNCTAD, 2008). Although governments, the private sector and other stakeholders in these countries are contributing in the infrastructural investments, the amount of investments needed still exceeds their contribution (UNCTAD, 2008). According to UNCTAD (2008), developing countries in general currently invest 3–4% of their GDP annually in infrastructure while they need to invest an estimated 7–9% to attain better economic growth and poverty reduction. Obviously, this results in an enormous gap between the current volume of investments and what is actually required. This raises the question of how developing countries should fill this gap. According to Mayer (2004, p. 259), MNEs have a very important role "in linking rich and poor economies, and in transmitting capital, knowledge, ideas and value systems across borders." Filling this investment gap requires MNEs to involve intensively in infrastructural investments in particular, and investments in general, and at the same time maximizing the benefits of host developing countries from MNEs' technological and other assets (UNCTAD, 2008). The question that readily comes to mind is what urges MNEs to engage in such operations and undertake such investments? Meyer and Estrin (2004) argue that MNEs, especially those with ambitious growth aspirations, put developing countries at the top of the priorities in their global

strategies agenda. Therefore, MNEs and developing country policy-makers have ‘a common interest’ in encouraging FDI (Meyer and Estrin, 2004, p. 1).

However, there should be great efforts in order to encourage MNEs to undertake FDI in developing countries. Undertaking such investments by MNEs actually depends on a complicated environment since each country has its own political, economic, and legal systems and even its own culture, which makes attracting MNEs a real problem for some developing countries. One of the key decisions facing MNEs when undertaking FDI is what level of ownership to have in their subsidiaries. There are two forms of ownership that determine the ownership structure of foreign affiliates; full ownership, i.e. a wholly owned subsidiary (WOS), or shared ownership, i.e. a joint venture (JV) (Kaynak et al. 2007). While the first form of ownership allows full control of the foreign affiliates, the second form offers sharing the risk and combining complementary strengths, mainly local market knowledge of a target market partner (ibid). Kaynak et al. (2007) argue that JV is most strongly supported ownership-based entry mode by emerging market environments. The decision of MNEs to choose between WOS and JV is not a straightforward and can be very complicated as it is dependent on different group of factors such as national, industrial, organisational and project factors (ibid). Therefore, the main contribution of this empirical study is to provide a further evidence of foreign investors’ ownership strategies in two developing countries, Syria and Jordan. Specifically, this study aims to (1) provide a parsimonious set of host-country location factors for the sample studied and test their validity by means of EFA and CFA, and (2) to develop and test hypotheses by means of logistic regression analysis on the relationship between location factors and the ownership strategies of the foreign affiliates.

The next section reviews the relevant theoretical literature, which seeks to explain the location factors of FDI and ownership strategies of MNEs and finally sets out the research hypotheses.

## LITERATURE REVIEW

### *Ownership Strategies*

The MNE’s choice of ownership strategies when undertaking FDI in a foreign market has become increasingly a major topic in the field of international business (Hill et al., 1990). While there has been an immense body of literature on entry modes into foreign markets (Brouthers et al., 1996), and the location determinants of FDI (Cleeve, 2006), there have been only few studies that addressed this issue, more specifically, the impact of host-country location factors on the ownership strategies of MNEs. There are different types and levels of ownership strategies that MNEs consider when undertaking FDI; joint venture (JV), and wholly owned subsidiary (WOS). Each of these strategies is consistent with different levels of control and resource commitments (Kim & Hwang 1992). Control refers to the authority over operational and strategic decision-making; resource commitment refers to dedicated assets that cannot be redeployed to alternative uses without loss of value (ibid). Reviewing the literature on those strategies reveals that while wholly owned subsidiaries can be characterised by a relatively high level of control and resource commitments, the levels of control and resource commitments vary in joint ventures with the nature of the ownership split (Kim & Hwang 1992; Hill et al., 1990). In this context, this study focuses on the MNEs choice between JVs and WOSs considering what determine their decision.

### *Host-Country Location Factors*

Buckley et al. (2007) argue that the location and control decisions of multinational enterprises are at the core of managerial decision-making and academic theorising in international business. The theories of Multinational Enterprise (MNE) have tried to discover why MNEs choose to locate their activities in a particular market or country. The literature demonstrates that country-specific location factors are the core of the MNEs decision to undertake FDI. Although location decisions for FDI have received relatively little attention in the literature (Buckley et al., 2007), researchers have investigated this phenomenon and come up with different findings, explanations, and perspectives. Location factors are one of the main elements of the Dunning (1980, 1988) eclectic paradigm of international production. Dunning (1980, 1988) proposed a comprehensive approach based on ownership, location,

and internalisation advantages to explain the investment decision of MNEs to undertake FDI. According to him, MNEs will undertake FDI based on the availability of the following four essential conditions: (1) if a firm possesses ownership-specific advantages (O) over other firms when serving specific market or country; (2) if a firm realizes the best benefit in internalising, the (O) advantages by having market internalisation advantages (I), but not through selling or renting them; (3) if the chosen host country has locational advantages (L) then, it is worthwhile to undertake FDI in this country than in other countries; and (4) if a firm undertakes FDI in accordance with its long-term strategy (Dunning & Lundan, 2008). Dunning also explains the motives for FDI and puts them into four categories; natural resource seeking, market seeking, efficiency seeking, and strategic asset or capability seeking (ibid). He also notes that firms may engage in FDI for more than one of the above motives (ibid). Other researchers such as Buckley and Casson (1976), and Teece (1986) based their explanation on transaction cost theory. This theory purports that the existence of MNEs is as a result of transaction costs. Companies tend to internalise their transactions when the transaction cost in a specific market is high therefore they undertake FDI in order to reduce the transaction costs. In explaining the internationalisation process of the firms, Johanson and Wiedersheim-Paul (1975) argue in their Uppsala model that engaging in international operations is the result of a sequence of incremental decisions and that the lack of knowledge about foreign countries and the tendency to avoid uncertainty are the factors that push firms to choose the least risky way to engage in international operations. Thus, firms begin to export to neighbouring countries as they have the same business practices. Once they gain enough experience, they move forward and undertake FDI in this country taking into account the size of its market (ibid). From an industrial perspective, Vernon (1966) argues that when a firm introduces a new product in a market, the firm's home country will be the base for producing this product and exporting it to other developed countries. Once the market for the product increases in a developed country, producers will set up a local production facility at this country to produce this product. Later, when the product becomes fully standardized, developing countries will become a location for producing the product because of their competitive advantages (ibid). For instance, seeking low-cost labour may be the primary motive for investors to undertake FDI in developing countries. Consequently, the production of this product shifts finally into developing countries (ibid). Another line of thinking is introduced by Knickerbocker (1973) in the theory of oligopolistic competition which explains the behaviour of US manufacturing firms. Knickerbocker (1973) argues that when a member of an oligopolistically structured industry undertakes FDI in any important foreign market, other risk-aversion members in this industry will follow this member and undertake FDI as well since these firms will not want to lose market share. In addition, there are some empirical studies that have provided an evidence of what are the most important location factors for a specific location. Cleeve (2006) investigated the institutional impediments to FDI inflows in Sub-Saharan Africa. He found that location factors such as large market size, the growth rate of the economy, good infrastructural development, high skills level, the openness of the economy, and institutional and political risk variables (such as democratic system, socioeconomic conditions and investment profile) are important determinants of FDI inflows, whereas, corruption, government and political instability have no effect on the inflow of FDI.

### **Conceptual Framework and Hypotheses Development**

Based on an extensive review of literature, a number of factors has been extracted and summarised systematically. These factors have been used in this study to develop constructs. The constructs of host-country location factors are the following: market factors (Dunning 1980, 1988; Aharoni 1966; Galan et al. 2007; Buckley & Mathew 1980; Dunning & Lundan 2008; Root 1987; Young et al. 1989; Goodnow 1985; Davidson 1980; Harrigan 1985; Kobrin 1976), institutional factors (Sethi et al. 2003, Dunning 1980, 1988; Goodnow & Hansz 1972; Loree & Guisinger 1995; Galan et al. 2007; Goodnow 1985; Dunning & Lundan 2008; Davidson & McFetridge 1985; Anderson & Gatignon 1986), cost factors (Dunning 1980, 1988; Buckley & Casson 1985; Davidson & McFetridge 1985; Galan et al. 2007; Goodnow & Hansz 1972; Moxon 1975; Dunning & Lundan 2008), infrastructure and technological factors (Dunning & Kundu 1995; Dunning 1980, 1988; Ulgado 1996; Galan et al. 2007; Dunning & Lundan 2008), and culture and social factors (Dunning 1993; Dunning 1980, 1988; Galan et al. 2007; Dunning & Lundan 2008).

In the light of the preceding discussion and the conceptual framework, the following hypotheses have been developed:

H1: The higher the relative importance of market factors (MF) the more likely that a foreign investor will select a WOS over a JV.

H2: The higher the relative importance of institutional factors (IF) the more likely that a foreign investor will select a WOS over a JV.

H3: The higher the relative importance of cost factors (CF) the more likely that a foreign investor will select a WOS over a JV.

H4: The higher the relative importance of infrastructure and technological factors (ITF) the more likely that a foreign investor will select a WOS over a JV.

H5: The higher the relative importance of cultural and social factors (CSF) the more likely that a foreign investor will select a WOS over a JV.

The next section presents how this study has been conducted, the sample profile, and the research setting of this study.

## **METHODOLOGY**

### ***Data collection procedure***

The data for this study were collected directly from subsidiaries of international firms in Syria and Jordan in order to enhance this research area because of the lack of good, firm-level data on FDI and location decision regarding these two countries. International companies identified for inclusion in this study were drawn from the database of the Federation of Chambers of Commerce in Syria and Jordan. The companies were selected according to the following criteria: (1) companies that are fully foreign-owned subsidiaries, and (2) companies that are as a result of Joint Venture between a foreign company and a local one (partly foreign-owned subsidiaries). This study targeted around 1442 multinational companies' subsidiaries in both countries. After removing those, which were branches of foreign companies, distributors, franchisees, the survey was then applied to the 418 resulting firms, which have undertaken FDI. For the purpose of this study, a questionnaire method was considered the most appropriate and feasible way for collecting the data. The questionnaire was developed based on the conceptual framework consisting of the above-identified location constructs. It asked each of the participated companies to evaluate the significance of each factor using a five-point Likert Scale from 1 to 5 where 1 is the least important and 5 is the most important.

The questionnaire was administrated to key decision-makers in the targeted companies. Decision-makers who participated in the completion of the questionnaire includes, top management officers such as Chief Executive Officers (CEOs), Managing Directors, General Managers, Country Presidents, Partners, or any other equivalent designation of each company. The questionnaire was thoroughly revised by and discussed with several academics in the UK, Syria and Jordan before it was distributed to the respondents. It was also pre-tested through personal interviews with top executives of four companies who were not later asked to take part in the study. Subsequently, it was used for a pilot study. This process enhanced the quality of the questionnaire and improved its design, content, wording and most importantly clarity and ease of understanding, so making it much easier and more attractive to answer. The questionnaire was administered through different ways. The first way was through email and online survey but unfortunately, the response rate was below 3%. The second way was through the postal system where the response rate was also below 5%. The third way was through personal interviews with interviewees in the firms who participated in the survey. The interviewees completed the questionnaire themselves in the presence of the principal interviewer, offering complete guidance and confidentiality to them. The sample size obtained was 303 usable questionnaires with a response rate for the last method of round 72%. The data were analysed using SPSS and AMOS.

### ***The research setting***

As noted earlier, this study was conducted in the Middle East region, more specifically, Syria and Jordan. Syria and Jordan are neighbouring countries in this region. The relations between them have



ancient roots; the two countries were in the past a part of one country called “Bilad Ash-Sham” or “Greater Syria”. That explains why those two countries are closely integrated and share very close social, cultural and historical ties. However, both countries enjoy the following common characteristics: (a) both countries are located in a distinguished geographical location, where the three continents meet, as they are located at conjunction of Europe, Asia and African. They are well situated as a regional entry point, being well connected to neighbouring countries and global markets through modern transportation and communication networks. They also serve as a focal point for trade and investment within the Middle East and North Africa region (MENA), particularly for the Iraqi and Gulf markets. Their location allows for diversification and expansion into increasingly affluent markets. (b) Both countries enjoy stable and safe political structure and remarkable national intimacy. The political environment of both countries offers constancy and a climate lead to advanced open market economy. Both countries signed free trade agreements with the Arab countries, Turkey, and EU. (c) Both countries have had low external indebtedness and stable exchange rate for many years, good infrastructure equipped and continuously developing industrial cities, free zones, skilled workforce and low wages, available and diversified natural resources, and low production costs. (d) Syria and Jordan are classified by World Bank as low-middle income economies. (e) Both countries have launched a series of reforms in order to attract more foreign investments by offering foreign investors special advantages, exemptions, facilitations and guarantees to investment projects, and many other incentives that are promoted through investment encouragement legislations. In addition, both countries have taken different important actions in this regard like advancing the private sector, signing various multilateral and unilateral trade agreements, and upgrading their legal system to cope with international business needs. (f) Both countries have feasible and various projects in different sectors that are available to foreign investors.

### ***Sample profile***

This sample of this study consists of 303 subsidiaries operating in Syria and Jordan, around 51% of them were wholly owned, whereas, the rest of them engaged in joint ventures with selected partners. As noted before, the data of this study was collected via questionnaire from multiple sectors. Based on the sample of this study, the manufacturing industry represents 29.4% of the sample, followed by the non-financial services sector represents 25.1% of the sample, and the financial services sector accounts for 21.5%. In addition to these three major sectors, the rest of the sample are represented as follows: 5.9% construction companies, 5.6% agriculture, hunting, forestry and fishing, 5.3% trade, 3.6% mining and quarrying, and 3.6% restaurants and hotels. As can be noticed that that the sample of this study is a multi-sector sample and the majority of the participated companies in this study are operating in services sector. The next section presents the statistical inferences of this study.

## **DATA ANALYSIS**

### ***Results of multivariate analysis***

In this study, multivariate data analysis techniques were used. The analysis has been carried out in two stages. First, a validity test of the study measurements was conducted using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). An exploratory factor analysis (EFA) was conducted using SPSS in order to examine the structure of the interrelationships (correlation) between the variables of the constructs, and to establish the suitability of the constructs for performing the multivariate analysis proposed. The results of the EFA after deleting items with cross loadings and communalities less than 0.50 following statistical rule of thumb by Hair et al. (2006), showed that all variables' loadings are more than 0.50. In addition, the EFA yielded the same structure of constructs, which confirms that all constructs have an independent structure. The second stage in the multivariate analysis of this study was conducting confirmatory factor analysis (CFA) for the set of variables resulted from the EFA. The CFA was conducted using AMOS and the results showed a very good fit of the model (GFI:0.908 > 0.9, AGFI:0.867 > 0.80, CFI:0.955 > 0.90, RMSEA:0.074 < 0.080). During the CFA procedures, some variables were deleted in order to improve the goodness of fit for the model following Hair's et al. (2006) statistical rule of thumb. The results of the CFA and the reliability of each construct are presented in the table 1 below. Table 1 shows that all the variables

have high loadings ( $> 0.70$ ) and strong reliability (Cronbach's Alpha  $> 0.7$ ). Therefore, we can report that all constructs are valid and reliable measurements for the host-country location factors.

**Table 1: Confirmatory Factors Analysis (CFA) Results**

Code	Construct	Loading	Cronbach's Alpha
<b>Market Factors (MF)</b>			0.901
MF1	Large size of host market	0.946	
MF2	Growing demand in host market (potential growth)	0.957	
MF3	Low-level competition in host market	0.718	
<b>Institutional Factors (IF)</b>			0.93
IF1	Local government regulations and policies towards foreign firms	0.956	
IF2	Political stability in host country	0.873	
IF3	Local governmental bureaucratic system and possible corruption in host country	0.835	
IF7	The legal environment	0.861	
<b>Cost Factors (CF)</b>			0.914
CF1	Availability and costs of local skilled workforce in host country	0.893	
CF2	Low costs of local workers in host country	0.879	
CF4	Low corporate tax rates in host country	0.838	
CF5	Availability and low costs of land	0.826	
<b>Infrastructure and Technological Factors (ITF)</b>			0.862
ITF1	Good infrastructures	0.863	
ITF2	High industrial concentration (industrial parks, technological networks, etc.)	0.79	
ITF3	Technologically advanced country (learning opportunities)	0.839	
<b>Cultural and Social Factors (CSF)</b>			0.822
CSF2	Standard of living and public services	0.819	
CSF1	Cultural Characteristics (e.g. language, religion, food & drink)	0.918	

***Hypotheses testing results***

A logistic regression analysis was conducted to test the hypotheses of this study on the functional relationships between the hypothesised effect variables and ownership strategies of foreign investors. The analysis included an examination of the foreign investors' choice between WOSs and JVs. The dependent variable was the ownership strategies, which was measured by categorical values of 1 for WOS and 0 for JV. The independent variables were the host-country location factors that resulted from the CFA. Table 2 presents the results of logistic regression and the goodness of fit of the model. The results of the regression shows that the coefficients of the model only three of them were significant ( $p < 0.05$ ), the market factors, institutional factors, and cost factors, whereas, the coefficients of infrastructure and technological factors, and culture and social factors were not significant ( $p > 0.05$ ). Consequently, this study rejected the hypotheses 4 and 5. Looking at the signs of the significant coefficients reveals that the hypotheses 1, 2, and 3 were strongly supported.

**Table 2: Results of Logistic Regression for the Ownership Strategies**

Variable Code	Variable Name	Dependent Variable Ownership Strategies (JV=0, WOS=1)		
		Coefficient	Wald Statistic	Sig.
MF	Market Factors	3.105520563	61.46464807	0.000
IF	Institutional Factors	1.336489461	27.72950133	0.000
CF	Cost Factors	0.967181167	20.77681348	0.000
ITF	Infrastructure and Technological Factors	-0.30656146	1.336893058	0.248
CSF	Cultural and Social Factors	-0.208717011	1.235678833	0.266
	Constant	-20.79691403	58.36851449	0.000
N	303			
Selected Cases	297			
Model Chi-square	160.724			0.000
-2 Log likelihood	250.921			
Cox & Snell R Square	0.418			
Nagelkerke R Square	0.557			
Classification (Overall Percentage)	80.1			

Drawing on the results of the regression analysis finds that the choice of MNEs between JVs and WOSs emerges to be significantly driven by market factors, institutional factors, and cost factors, whereas, infrastructure and technological factors, and cultural and social factors were found to have no effect. Table 3 summarises the results of the hypotheses testing of this study.

Hypothesis	Variable Name	Expected Sign	Actual Sign
H1	MF	+	+
H2	IF	+	+
H3	CF	+	+
H4	ITF	+	n.s
H5	CSF	+	n.s

The findings of this study appear to confirm the results of prior research suggesting that the probability of choosing a WOS over a JV increases as the attractiveness of the host country market increases, as a higher role of host country institutions is perceived, and as a higher profit maximising considerations are perceived. Whereas, this study contradicts with prior research suggesting that infrastructure (e.g. Cleeve, 2006) and cultural factors are important determinants of MNEs' investment decision.

The next section presents the summary of the main findings of this study and conclusion.

## CONCLUSION

One of the principal decisions facing MNEs when undertaking FDI is the level of ownership in their subsidiaries; full ownership, i.e. wholly owned subsidiary (WOS), or shared ownership, i.e. joint venture (JV). The decision of MNEs to choose between these two strategies is not a straightforward and can be very complicated as it depends on different groups of factors. Reviewing the literature on MNEs' ownership strategies reveals that while there has been an immense body of literature on entry modes into foreign markets and the location determinants of FDI, only few studies addressed this issue, more specifically, the impact of host-country location factors on the ownership strategies of MNEs. Consequently, the contribution of this empirical study is to provide a further evidence of foreign investors' ownership strategies in two developing countries, Syria and Jordan. Specifically, this study aims to provide a parsimonious set of host-country location factors for the sample studied and test their validity by means of EFA and CFA, and to develop and test hypotheses by conducting logistic regression analysis on the relationship between location factors and the ownership strategies of the foreign affiliates. Based on an extensive review of literature, a number of factors has been extracted and summarised systematically. These factors have been used in this study to develop constructs, which are the following: market factors, institutional factors, cost factors, infrastructure and technological factors, and culture and social factors.

The data for this study were collected directly from subsidiaries of international firms in Syria and Jordan in order to enhance this research area because of the lack of good, firm-level data on FDI and location decision regarding these two countries. The questionnaire was developed to ascertain the opinion of the key decision-makers in the targeted companies on importance of examined location factors in the decision of MNEs when undertaking FDI in a specific location. Decision-makers who participated in the completion of the questionnaire were top management officers such as Chief Executive Officers (CEOs), Managing Directors, General Managers, Country Presidents, Partners, or any other equivalent designation of each company.

This sample of this study consists of 303 subsidiaries operating in Syria and Jordan, around 51% of them were wholly owned, whereas, the rest of them engaged in joint ventures with selected partners. The data were analysed using SPSS and AMOS. This study used multivariate data analysis techniques. A validity test of the study measurements was conducted using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). The results of the EFA confirm that all constructs have an independent structure. CFA results show a very good fit of the model and all variables have high loadings and strong reliability. Hence, it can be reported that all constructs are valid and reliable measurements for the host-country location factors. Based on that, a logistic regression analysis was conducted to test the hypotheses of this study on the functional relationships between the hypothesised effect variables and ownership strategies of foreign investors. Drawing on the results of the regression analysis, finds that the choice of MNEs between JVs and WOSs emerges to be significantly driven by market factors, institutional factors, and cost factors, whereas, infrastructure and technological factors, and cultural and social factors were found to have no effect. The findings of this study appear to confirm the results of prior research suggesting that the probability of choosing a WOS over a JV increases as the attractiveness of the host country market increases, as a higher role of host country institutions is perceived, and as a higher profit maximising considerations are perceived. Whereas, this study contradicts with prior research suggesting that infrastructure and cultural factors are important determinants of MNEs' investment decision.

To sum, this study shows that the choice of MNEs between JV and WOS emerges to be intrinsically influenced by the market attractiveness of the host country (i.e. market factors), to what extent the investment environment is favourable for MNEs regarding government policies, regulations, and laws, and the perceived potential risks in those countries (i.e. institutional factors), and the costs associated with such an investment (i.e. cost factors), whereas, infrastructure and technological factors, and cultural and social factors were found to have no effect.

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## WHAT MOTIVATES AFRICA'S NASCENT TRANSNATIONAL CORPORATIONS? CASE EVIDENCE FROM WEST AFRICA

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*This paper draws on preliminary case evidence to explore the FDI motivations of nascent Transnational Corporations (TNCs) from West Africa. It complements recent research on TNCs from emerging markets, which has essentially focused on the BRIC (Brazil, Russia, India, and China) economies, with virtually no attention to potentially important players from sub-Saharan Africa. The study subjects include seven leading players from the financial services and construction sectors that have investment footprints in a combined total of ninety six country markets, or an average of thirteen each. A majority of these new foreign market moves were made since 2006, following the recapitalisation and consolidation of the Nigerian banking sector driven by the Central Bank authorities. Also, whilst a preponderance of these new market entries are within the African region, several cases of expansion to the UK, France, USA, China, and UAE have also been observed. Case evidence suggests a strong prevalence of market seeking motivations among the study firms, expressed not only in their committed push to geographically close and demand-similar African markets, but also their forays to key global financial centres of London, New York, Paris and Beijing. Relationship seeking motives were also observed, notably in the expansion into the latter (global) markets, with brand building, strategic presence or prestige-seeking motivations further emerging as sub-themes. A number of policy and future research issues are highlighted in the final paragraphs of the paper.*

### INTRODUCTION

Although Africa is still a marginal contributor to global OFDI flows, its overall OFDI stock has quadrupled in nine years, from USD29.3 billion in 2001 to USD60 billion in 2006, and to USD122.4 billion in 2010. The figures for 2007 and 2008 were USD10.7 and USD9.75 billion respectively, and despite the persisting global economic downturn, Africa's OFDI still reached a respectable USD6.63 billion in 2010 (WIR, 2011). A few additional facts deserve noting: eleven African Transnational Corporations (TNCs) were ranked in the top 100 of non-financial TNCs from developing economies in 2007; the number of outward green-field investment projects undertaken by African countries reportedly rose by 239 per cent increase in 2008 compared to 2007 (Financial Times, 2009); forty top African companies were recently identified in a recent Boston Consulting Group report as Global Challengers (BCG, 2010). African companies, therefore, appear to be joining their counterparts from other emerging regions in pursuing their growth ambitions through OFDI (Ibeh, 2008). South Africa, not surprisingly, accounts for a significant proportion of this African OFDI flows (about 67 per cent of the total OFDI stock in 2010 or 18 of the top 40 African Global Challengers identified in the earlier mentioned BCG report). The more interesting narrative, however, is that new TNCs are emerging from an increasing number of African countries, including Nigeria, Egypt, Morocco, Algeria, Libya and Angola. Nigeria, for example, accounted for 27 per cent (USD1.54 billion) of Africa's OFDI flow in 2009 (USD5.62 billion). Tunisia, Kenya, Senegal, Gabon, Mauritius, Botswana and Zambia also recently boosted their modest OFDI stock (Senegal, for example, recorded their highest ever OFDI outlay - USD154 million - in 2010).

Previous research on TNCs from emerging markets, or the South-North / South-South FDI flows, has understandably focused on the BRIC (Brazil, Russia, India, and China) economies (Goldman Sachs, 2003; Sauvart, 2005). African TNCs, particularly those originating from outside South Africa and North Africa, have attracted little or no research attention, apparently because their OFDI activities are of a much lower scale and profile, and a more recent pedigree. Greater understanding of these nascent African TNCs is, however, important for a number of reasons, not the least of which is their

potentially transformational role in the lagging region's economic development. Ibeh (2009) discussed these imperatives as follows.

First, African TNCs are likely to be among the largest indigenous enterprises in the continent and may be less susceptible to the lack of formality that tends to stunt the organizational development of most African SMEs. Indeed, the urgent need for the improvement of governance standards in the Africa's private sector is more likely to be met in larger, more formal businesses, which tend to move towards greater transparency, as their rising profile attracts greater scrutiny and more demand for accountability from their many stakeholders. Although small and medium sized businesses have a very critical role to play in Africa's economic development, the experience of other Southern economies suggests that sizeable indigenous actors (e.g. India's Tata and China's Lenovo) are needed to drive national and regional economies. They also have better prospects of developing competitive positions in global markets. Such sizeable actors are also more likely to deliver other favorable spin-off benefits, including private sector-led improvements in governance standards and infrastructure investments. This notion of FDI-driven economic transformation is broadly consistent with earlier theories at the FDI-economic development nexus, notably the Investment Development Path<sup>i</sup> and the Flying Geese model<sup>ii</sup>. African TNCs also matter because internationally active firms are thought to grow faster than those that limit their operations to domestic markets. The argument is that exposure to foreign markets tends to create a self-reinforcing virtuous cycle, where liability of foreignness and greater international competition may have adverse effects on a firm's competitiveness, but also drive them to innovate, raise their game and develop appropriate compensating capabilities and advantages to ramp up their overall competitiveness.

Next, indigenous African TNCs could become powerful role models for other African enterprises, and their exemplar effect could inspire and galvanize other African companies to adopt a similar internationally-focused growth path. This might create a healthy rivalry and positive dynamic among African companies, and challenge them to develop the skills and capabilities they need to become transnational actors. This pattern is consistent with the emulation principle of international business expansion. Also, the growth of African TNCs may offer investment and employment opportunities to Africans in the Diaspora and motivate some to invest in Corporate Africa or return to the continent to work for, or with, one or more of these expanding international corporations. This may result in greater inflow of investment capital, managerial knowledge and skilled workforce ('brain gain') to Africa – a trend already observed in other emerging economies with an increasingly vibrant TNC sector, notably India and China.

The aim of this *preliminary* paper is to explore the main motivations for the emergence of TNCs from parts of Africa not normally associated such activity. The idea is to improve awareness of these nascent TNCs with a view to setting an agenda for future appropriate research. The remainder of this paper is organised as follows. Section two presents a brief and selective review of the literature pertaining to the focal issues raised by the present study and outlines relevant research questions. An explanation of the case study approach adopted for this study is provided in section three. This is followed by a presentation, analysis and discussion of the case evidence generated in this study. The final section summarises what is known about the FDI patterns and motivations of the investigated African TNCs and discusses the policy and future research issues raised.

## **BRIEF LITERATURE REVIEW AND RESEARCH QUESTIONS**

International business economists, including Hymer (1960), Kindleberger (1970), Aliber (1970), Caves (1971), Dunning (1977), and Buckley (2002), have long sought to explain how and why firms undertake FDI activities. Hymer's influential view, severally reinforced by others (Kindleberger, 1970; Aliber, 1970; Caves, 1971), was that FDI decisions are driven mainly by firms' resolve to gain optimally from quasi-monopolistic advantages they possess over indigenous competitors in host/foreign markets. This notion, which broadly resonates with the increasingly adopted resource-based (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Foss, 1997) and knowledge based (Kogut and Zander, 1992; Grant, 1996) perspectives, suggests that such quasi-monopolistic advantages must be



sufficiently significant to compensate for the investing firm's 'liability of foreignness' and the advantages of local nationality and knowledge enjoyed by the indigenous companies (Dunning, 1977; Young et al. 1989; Ibeh, 2005).

Transaction cost / internalization theorists, notably Buckley and Casson (1976), Rugman (1980), and Hennart (1982), further extended research in this area, by identifying additional conditions under which direct investments are preferable to using external parties in foreign markets. Their conclusion is that by internalizing the international transfer of a firm's assets and capabilities through FDI rather than market mechanisms, firms are better able to exploit their quasi-monopolistic advantage(s) in foreign markets, with fewer transfer problems (Buckley and Casson, 1976; Rugman, 1980, 1985; Hill et al., 1990; Kogut and Zander, 1993). Dunning's (1981) OLI model highlighted the additionally critical role of locational factors in influencing FDI behaviour, and argued that the three sets of advantages (ownership-specific advantages, internalisation advantages, and location-specific advantages) should be considered holistically in order to gain fuller understanding of firm FDI behaviour. Later work by this scholar acknowledged the reality of 'alliance capitalism' and observed that FDI decisions are also increasingly influenced by the quest for relationship or network-related advantages (Dunning, 1993).

The foregoing research stream, thus, gave rise to a number of generic motives for FDI. These include resource-seeking motivations (to gain location-specific advantages embedded in industry and market structures abroad), market-seeking motivations (to exploit firm advantages in potentially lucrative foreign markets), and strategic asset-seeking motivations, including efficiency-, knowledge- and relationship-seeking motives (to respectively leverage advantage-generating cost structures, knowledge capabilities and relational/network assets possessed by market actors abroad) (Dunning, 1993; Bell and Young, 1998; Mirza, 2000; Ibeh, Young, and Lin 2004).

More recent attempts to explain the FDI moves of MNEs/TNCs from the developing South and other emerging markets have largely employed the above framework of motives. The search for natural resources, for example, is widely identified as a key motivation for Chinese FDI (and Indian, to a lesser extent) to Africa and Latin America (Goldstein, 2003, 2006; Casanova, 2004; UNCTAD, 2004; Gao, 2005; DFID, 2005; Goldstein, Pinaud, Reisen and Chen, 2006). As UNCTAD (2003) noted, Chinese firms invested abroad, particularly to secure the supply of resources to meet the growing demand at home (UNCTAD, 2003). Gutierrez (2004) also reported that an estimated eighty per cent of Chinese FDI in Latin America is in the natural resource sector. Market expansion is also an often-cited motive. Matsuno and Lin (2003), for, example, highlighted the quest to increase market size as a key motive for Chinese firms' vigorous push into Japan. Another research on Chinese firms (Frost, 2004) and a couple of studies on Russian firms (Vahtra and Liuhto, 2004; Heinrich, 2006) also offered related evidence in regard to the expansion of Chinese and Russian TNCs into Southeast Asia and Eastern Europe respectively. Relationship and network benefits are similarly highlighted. Yang (2003), for example, concluded that the geographic distribution of China's outward FDI reflected the distribution of network benefits required by Chinese firms and the relevant cost saving effects for obtaining such benefits. Goldstein, Bonaglia and Mathews (2006) also observed, based on case evidence from three Chinese, Mexican and Turkish firms (2006) that new MNEs often become global as a result of direct firm-to-firm contracting. Gao (2005) further commented on the significant role of ethnic Chinese networks, especially in the differentiated goods sector.

Evidence increasingly suggests that the OFDI decisions of developing country TNCs are often underpinned by multiple motives. UNCTAD, for example, found motives such as accessing strategic assets and skills, gaining access to resources and technology, improving R&D capabilities, expanding markets, taking advantage of cheap labour, and improving efficiency or export competitiveness to be salient (UNCTAD, 2005a, 2005b). As Von Keller and Zhou (2004) reported, sixty per cent of China's top leading multinationals sought new markets, 20 per cent went for natural resources, and 16 per cent sought advanced technology and related brand equity. Specific motivations identified for Indian FDI include the desire for access to markets, natural resources, distribution networks, foreign technologies, and strategic assets like brand names and improvement of firm-specific advantages, including

financial capability (UNCTAD, 2004). Another observation suggested by the literature is that FDI moves by TNCs from developing countries to the more advanced economies of the North (Citigroup, 2005) tend to be motivated more by market-, strategic asset-, knowledge-, and relationship-seeking reasons (Zeng and Williamson, 2004; UNCTAD, 2005; Goldstein, 2006) than by resource- and efficiency-seeking factors.

The foregoing review raises the following questions in relation to the present study:

*What key motivations underpin the FDI behaviour of Africa's emerging TNCs? How related are these to the major motives for FDI activities identified in previous research?*

## **METHODOLOGY**

Data on the above outlined research questions were obtained using a multi-case research design (Miles and Hubermann, 1994; Yin, 2003). This approach is justified based on the severely limited extant knowledge on the FDI behaviour of African countries. It also responds to repeated calls for more qualitative designs in international business research (Chetty, 1996; Bell and Young 1998; Ghauri, 2004; Piekari and Welch 2004; Ibeh, 2005), and has been successfully employed in studying emerging MNEs/TNCs from other regions (e.g. Salas-Porrass, 1998; Bartlett and Ghoshal, 2000; Sim and Panadian, 2003; Zhang, 2003; Del Sol and Kogan, 2004). This method is also fitting given that the potential benefits of properly conducted case studies, in terms of data richness, depth and quality, may compensate for their associated shortcomings, notably limited representativeness and generalisability (Miles and Hubermann, 1994; Yin, 2003). The following incremental steps were implemented to ensure good case research protocols and minimise associated weaknesses.

First, the study context was delineated essentially as West Africa, whose main economy, Nigeria, is one of the leading sources of OFDI in Middle Africa (outside the traditionally prosperous South Africa and North Africa) (WIR, 2011). Some analysts, indeed, project that Nigeria, with its recent strong growth figures (5.6 per cent in 2006; 8.2, 2007; 9, 2008; 5.7, 2009; 7.6, 2010, and 7.1, 2011 (Green, 2008; World Bank, 2011), may overtake South Africa as the region's largest economy by 2020 (Akande, 2007). This reinforces Goldman Sachs' earlier projection that Nigeria would join the ranks of the 20 top economies in the world by 2025 (Goldman Sachs, 2005). Other authoritative sources, notably the World Bank have also characterised Nigeria as having a very vibrant private sector with a strong investment spending and exciting prospects, whilst Financial Times special report noted its 'irrepressible ascent into the ranks of the world's big emerging economies' (Wallis and Green, 2008; World Bank, 2011).

Second, the study population was defined as comprising leading players with FDI footprint in at least two other country markets. This is consistent with the IB literature (UNCTAD, 2008). It also serves to ensure a reasonably sized study population. Though not without limitations, this operational definition of TNCs is deemed sufficient for the exploratory nature of the present study.

Third, secondary data from multiple sources, including national and supranational organisations, company websites and reports and business press, were examined for relevant insights on the case firms. The lead researcher's stint with the World Bank Group in Washington DC was helpful in this process, so were earlier visits to the Abuja headquarters of the Central Bank of Nigeria and a number of banks, notably Zenith Nigeria Plc and Ecobank Nigeria Plc. These visits yielded helpful interviews with key informants (Philips, 1981) as well as relevant published data. Seven companies were eventually identified for probable investigation, which served to ensure that findings were not merely a result of one idiosyncratic setting (Miles and Hubermann, 1994).

The data generated from the above outlined procedures was subjected to content analysis – a valid and widely employed method of developing an objective and systematic description of the manifest content of qualitative and archival data (Holsti, 1968, Aronoff, 1975; Bartunek, Bobko, and Venkatramen, 1993; Sydserff and Weetman, 2002). The particular form of content analysis adopted was the meaning-oriented analysis, which requires the researcher to focus on the underlying themes in the observed data,

matching appropriate content with the pre-formulated research questions, and to interpret the findings accordingly (Aronoff, 1975; Sydserff and Weetman, 2002). This meaning-oriented analysis is more amenable to an issue-by-issue presentation approach (than an in-depth case study approach), as it allows for a judicious use of exact quotes and vignettes from the study firms in further illuminating the explored research questions (Miles and Hubermann, 1994; Yin, 2003).

## ANALYSIS AND FINDINGS

### Brief Resource and FDI Profile of the Focal TNCs

The nascent TNCs investigated include six financial services groups (Access Bank, Guaranty Trust Bank, Ecobank Transnational Incorporated; First Bank of Nigeria, United Bank for Africa, and Zenith Bank) and a conglomerate (the Dangote Group) with dominant interests in construction. The oldest company, First Bank, dates back to 1894 while the youngest, GTB, commenced operations only in 1990. Ecobank, with over 23,000 staff and 1100 branches, is the largest company by employee size and spread. Table 1, below, presents the resource profile of these nascent African TNCs.

**Table 1: Profile of Nascent TNCs from West Africa**

Company	Home Country	Industry	Resource Indicators (2011)	Employees	Ownership Status
Access Bank	Nigeria	Financial Services	TA N2tn; PBT N20bn; Earnings N139bn	1430+	plc
Dangote Group	Nigeria	Conglomerate/constr.	Named top 40 African Global Challenger by BCG; Founder/President ranked 76 <sup>th</sup> the Forbes list in 2011 (worth \$11.2bn)	11,000	plc
First Bank	Nigeria	Financial Services	TA N2.86trn; PBT N49bn; Grp 21%; 560+ branches; Named top 500 bank brand	12000+	plc
GTB	Nigeria	Fin. Serv.	TA N2.14trn; PBT N65.6bn; Grp 35%; staff; 177 branches; named top 500 bank brand	5,000+	plc
United Bank for Africa	Nigeria	Financial Services	TA \$19bn; Earnings N133bn; PAT N10.1bn; 750+ offices; Named top 40 African Global Challenger, and top 500 bank brand	12891	plc
Zenith	Nigeria	Fin. Serv.	TOC N2.31trn; Earnings N244bn; PBT N61bn; GR 21%; 500 branches; B+ by Fitch; named top 500 bank brand	5426	plc
Ecobank Transnational Inc.	Togo	Financial Services	TA \$11.9bn Earnings \$804m; PBT \$178m; GR 51%; 1100 branches;	23000	plc

*Collated from Various Sources*

As can be seen from Table 2 below, all the case firms have direct investments and manage affiliates in at least three countries outside their home country. The earliest FDI move was undertaken by First

Bank Group in 1982, with the most recent actor being Dangote Group, which made its first foreign direct investment in 2008. The period since 2006 accounts for an overwhelming majority of the observed FDI activities.

**Table 2: FDI Activities of Nascent TNCs from West Africa**

<b>Bank</b>	<b>Subsidiary</b>	<b>Mode</b>	<b>Date</b>
Access Bank Nigeria Plc	Omnifinance Cote d'Ivoire	Acquisition (88%)	2008
	Bancor Bank of Rwanda	Acquisition (75%)	2008
	Banque Privée du Congo	Acquisition (90%)	2008
	Access Bank (Sierra Leone)	Wholly owned	2007
	Access Bank Gambia	Wholly owned	2007
	Access Bank Zambia	Wholly owned	2008
	Access Bank UK	Wholly owned	2008
	Access Bank Ghana	Wholly owned	2009
	Access Bank Burundi	Wholly owned	2010
UBA Nigeria Plc	UBA New York	Wholly owned	2007
	UBA Capital, UK	Majority stake	2007
	UBA Ghana	Wholly owned	2004
	UBA Sierra Leone	Wholly owned	2008
	UBA Cameroon	Wholly owned	2007
	UBA Uganda	Wholly owned	2008
	UBA Cote d'Ivoire	Wholly owned	2008
	UBA Liberia	Wholly owned	2008
	UBA Benin Rep	Majority Stake	2009
	UBA Burkina Faso	Wholly owned	2009
	UBA Paris	Rep Office	2009
	UBA Senegal	Wholly owned	2009
	UBA Guinea	Wholly owned	2010
	UBA Mozambique	Wholly owned	2010
	UBA DRC	Wholly owned	2011
	UBA Zambia	Wholly owned	2011
	UBA Chad	Wholly owned	2011
	UBA Gabon	Wholly owned	2011
UBA Kenya	Wholly owned	2011	
UBA Tanzania	Wholly owned	2011	
UBA Congo Brazzaville	Wholly owned	2011	
Zenith Bank Nigeria Plc	Zenith Ghana	Wholly owned	2006
	Zenith UK	Wholly owned	2007
	Zenith Sierra Leone	Wholly owned	2008
	Zenith South Africa	Rep Office	2009
	Zenith Gambia	Wholly owned	2011
	Zenith China	Rep Office	2012
Guaranty Trust Bank Plc	GTB UK	Wholly owned	2008
	GTB Ghana	Wholly owned	2006
	GTB Gambia	Wholly owned	2002
	GTB Sierra Leone	Wholly owned	2002
	GTB Liberia	Wholly owned	2009
	GTB Cote d'Ivoire	Wholly owned	2012

First Bank of Nigeria Plc	FB Plc UK	Wholly owned	1982
	FB Paris	Wholly owned	2008
	First Bank South Africa	Rep. office	2004
	First Bank China	Rep. office	2009
	First Bank DRC	Wholly owned	2012
Ecobank Transnational Incorporated	Ecobank Congo Brazzaville	Wholly owned	2007
	Ecobank Malawi	Wholly owned	2007
	Ecobank Rwanda	Wholly owned	2007
	Ecobank Nigeria	Wholly owned	1989
	Ecobank Senegal	Wholly owned	1999
	Ecobank Guinea	Wholly owned	1999
	Ecobank Cote d'Ivoire	Wholly owned	1989
	Ecobank Mali	Wholly owned	1999
	Ecobank Burkina Faso	Wholly owned	1997
	Ecobank Niger Rep.	Wholly owned	1999
	Ecobank Liberia	Wholly owned	1999
	Ecobank Sierra Leone	Wholly owned	2006
	Ecobank Ghana	Wholly owned	1990
	Ecobank Guinea Bissau	Wholly owned	2007
	Ecobank Gambia	Wholly owned	2008
	Ecobank Togo	Wholly owned	1985
	Ecobank Benin	Wholly owned	1990
	Ecobank Cape Verde	Wholly owned	2008
	Ecobank Sao Tome & Principe	Wholly owned	2001
	Ecobank Cameroon	Wholly owned	2006
	Ecobank Chad	Wholly owned	2007
	Ecobank Central African Rep.	Wholly owned	2007
	Ecobank Dem. Rep. of Congo	Wholly owned	2007
	Ecobank Kenya	Majority Stake	2008
	Ecobank Burundi	Wholly owned	2008
	Ecobank Uganda	Wholly owned	2009
	Ecobank Gabon,	Wholly owned	2009
	Ecobank Zambia	Wholly owned	2009
	EBI SA (Ecobank) Paris	Majority Stake	2009
	Ecobank Johannesburg	Rep office	2009
Ecobank Dubai	Rep office	2009	
Ecobank Tanzania	Wholly owned	2010	
Ecobank Zimbabwe	Majority Stake	2010	
Ecobank Angola	Rep office	2010	
EBI SA London	Majority stake	2011	
Dangote Group	Sephaku Cement, South Africa	45% Minority Stake	2008
	Dangote Cement Senegal	Wholly owned	2009
	Dangote Cement Zambia	Wholly owned	2009
	Onigbolo Cement Benin Rep	43% Minority Stake	2010
	Dangote Cement Ethiopia	Wholly owned	2011
	Dangote Cement Gabon	Wholly owned	2011
	Dangote Cement DRC	Wholly owned	2011
	Dangote Cement Tanzania	Wholly owned	2011
	Dangote Cement Cameroon	Wholly owned	2011
	Dangote Terminal S Leone	Wholly owned	2011
	Sephaku Cement, South Africa	64% Minority Stake	2011
	Dangote Terminal Ghana Dangote	Wholly owned	2012
	Term Cote d'Ivoire	Wholly owned	2012
	Dangote Terminal Guinea	Wholly owned	2012
	Dangote Terminal Liberia	Wholly owned	2012

Source: The Authors - Collated from various sources

*Access Bank Plc* currently has subsidiaries in nine countries, eight in Africa and one in Europe. Its first direct investment was in 2007, with the latest subsidiary being Access bank Burundi in 2010. *Ecobank Transnational Incorporated*, with subsidiaries in 32 African countries and three non-African markets (Paris, London, Dubai), has the broadest base of any bank in the continent. It commenced FDI activity in 1989 and has expanded largely through the acquisition of existing banks in various African countries, the latest being in London, via its French affiliate, EBI SA. *First Bank of Nigeria* has a subsidiary in the UK and DRC, a branch in Paris, France and representative offices in South Africa and China. Its initial internationalisation dates back to 1982 when it established its London branch. The Paris branch was opened in July 2008, while the DRC subsidiary established in 2012 is its latest. *Guaranty Trust Bank (GTB)* first expanded internationally in 2002 and currently has six international subsidiaries (Ghana, Gambia, Sierra Leone, Liberia, UK and Cote d'Ivoire). Its UK operation received the UK's Financial Services Authority licence to operate as a full-fledged commercial bank in March 2008. *The United Bank for Africa* brands itself as "Africa's global bank" and has subsidiaries/affiliates in nineteen African countries and other non-African markets – USA, UK, France and Cayman Islands. Its US operation, regulated by the office of the USA's comptroller of currency, originally dates to 1984, and it provides corporate banking services and in such other spheres as energy, treasury and property trading, missions banking, correspondence banking and trade finance as well as remittances. The UBA's investment banking and asset management affiliate, UBA Capital (Europe), formally commenced business in London in February 2008. *Zenith Bank Plc* has subsidiaries in five other countries, including Ghana, the UK, Sierra Leone, South Africa and Gambia. Zenith Bank Ghana, a wholly owned operation, commenced operations in 2006, with its UK counterpart, Zenith Bank UK, another wholly-owned outfit, following suit in April 2007. The latest subsidiary, Zenith Bank Gambia, took off in 2010. *Dangote Cement Plc*, part of Dangote Group, has direct investments in cement plants and terminals in South Africa, Senegal, Zambia, Ghana, and Sierra Leone, and has signed contracts for new plants and terminals in ten other African countries. Its 45 per cent stake in South Africa's Sephaku Cement was raised to 64 per cent in 2010.

It can be seen from the foregoing that the seven case firms have expanded mainly through wholly owned investments and majority stake acquisitions. Very few instances of deviations to this rule are observed, notably Dangote's recent 43 per cent minority stake in Onigbolo Cement Company in Benin Republic. The predominant use of wholly owned and majority stake operations suggests the need by these firms to have strategic control of their international operations. Another observation that can be made based on the above data is that these TNCs are currently present in an average of thirteen countries, which is remarkable considering that most of them only commenced international expansion after the consolidation of the Nigerian banking sector in 2005. This raises three further points, the first being the speed at which some of these banks expanded internationally since 2006: Access, UBA, and Ecobank have each entered nine or more countries during the past five years. The next relevant point is that although these firms have entered mainly geographically proximate African countries, there have been several cases of expansion into European markets and other non-African markets. Finally, the catalytic role played by the Central Bank of Nigeria in the international expansion of the financial service firms, in particular, is worth highlighting. This include driving through the consolidation of the banking sector in 2005 and setting forward the Financial System Strategy 2020, which, among other things, challenged Nigerian banks to strive toward attaining global benchmark standards and joining the ranks of the top global players in their industry.

### **Dominant Motivations for the FDI activities of the Study Firms**

Preliminary evidence suggests that search for new market opportunities and strategic relationships to be the key motivations for the FDI behaviour of the examined TNCs.

*Access bank plc* appears committed to establishing a platform to reach the major sub-regional markets of Africa, as encapsulated in its African Expansion Strategy, which aims to transform the bank into the most respected in Africa (Access Bank, 2012). The acquisitions of the Cote d'Ivoire's Omnifinance Bank, Rwandan Bancor Bank S.A, and Banque Privée du Congo thus aimed,

respectively, at facilitating expansion into the UEMOA (CFA Zone), growing market share and building scale in East African countries such as Tanzania, Uganda and Kenya, and facilitating entry into the Central African region (Gabriel, 2008). GTB highlighted the development of new business relationships and improvement of overall service quality as key motivations for its UK international expansion in 2008, but most recently emphasised its focus on growth areas within the West African economy (GTB, 2008, 2012). Ecobank's international expansion appears to be driven by the strategic need "to build a world-class pan-African bank and to contribute to the economic and financial integration and development of the African continent" (Ecobank, 2012). This involves having presence across the different regions of Africa – central, southern, eastern, western. For example, its Congo-Brazzaville subsidiary was seen as an important step toward covering the Central African region, while the now majority-owned Loita Bank in Malawi significantly extended Ecobank Group's reach to southern and Middle Africa. The Group's CEO highlighted the bank's commitment to its African roots and Africa's development, and to meeting the challenges of globalisation.

The UBA aspires to be Africa's global bank and a recognised and respected player in the global financial services sector. It seeks to leverage its dominance of the Nigerian banking industry to extend its tentacles across Africa and beyond, whilst also reinforcing its position in the Nigerian market through strategic moves in major international markets. The UBA Capital UK, for example, aims to provide the parent bank with a strategic presence in London for its Pan African asset management business and making it the investment bank of choice for African issuers seeking to distribute primary and secondary securities into Europe. It also facilitates access for international institutional investors to investment opportunities across the African continent (This Day, 2008a). The UBA New York offices at Rockefeller plaza were conceived as the centre of its North American business, targeted at US-based companies and individuals who do business and maintain links with Africa. *Zenith Bank Plc's UK operation* was viewed as a strategic window through which it could access other commercial centres in Europe and the rest of the world. It was also aimed at deepening the bank's base and growing the brand. Dangote Cement Plc's investments in several plants across Africa are reportedly driven by the company's pan-African expansion strategy and a strategic need to announce the company on the 'world stage' (Adewoyin, 2008). The joint venture with South Africa's Sefhaku Cement was, for example, viewed as providing a platform for an early entry into the lucrative South African cement market and for collaborating with like-minded entrepreneurs to deliver cost effective product at world class levels of energy efficiency and emissions.

**Table 3: Key Motivations for the FDI Activities of focal African TNCs**

<b>Bank</b>	<b>Key Motivations</b>
Access Bank Nigeria Plc	To become the most respected financial services group in Africa by 2012
Dangote Cement Nigeria Plc	To become a dominant African and respected global player and to deliver world class levels of energy efficiency
Ecobank Transnational Incorporated	To build a world-class pan-African bank and to contribute to the economic and financial integration and development of the African continent
First Bank of Nigeria Plc	To gain a strategic foothold in leading financial centres and foster African trade with other parts of the world
Guaranty Trust Bank Nigeria Plc	To focus on key areas of growth within the West African economy
UBA Nigeria Plc	To become Africa's global bank and a respected player in the global financial services sector
Zenith Bank Nigeria Plc	To provide a strategic window for accessing other world's key financial centres and growing the brand

The foregoing suggests the salience of a combination of motives for the FDI activities of the focal TNCs – see Table 3 above. There is a strong prevalence of market seeking motivations among all the

firms studied, which mainly finds expression not only in their committed push to geographically close (Johanson and Vahlne, 1977) and demand-similar African markets (Linder, 1962), but also in their forays in such key global financial centres as London, New York, Paris and Beijing. Relationship seeking motives were also observed notably in the entry into the UK and US markets by the UBA and GTB. This takes the form of these banks seeking to develop new relationships with individuals or organisations based in these key markets, but who have current or historical links with Africa, or are seeking to initiate such links. Brand enhancement (or ‘announcing presence at the world stage’) was also highlighted as important (e.g., Zenith Bank, UBA, and Dangote Cement), while resource seeking motivation was not observed to be salient. Only one of the study firms, Dangote Cement Plc, highlighted efficiency seeking motivation as a key factor in their South African investment.

## **SUMMARY, DISCUSSION AND IMPLICATIONS**

This paper presents initial evidence regarding the FDI activities and motivations of nascent TNCs from West Africa. It captures the tentative steps of these TNCs in the international investment arena and suggests their growing importance as meaningful actors in African economies and potentially global markets. The examined cases include six leading players from the West African financial services sector and one conglomerate with dominant interests in the construction sector. Case data suggests that these TNCs have largely employed higher control modes – wholly owned and majority stake acquisitions – in their FDI activities (see also Pradhan, 2003) and have, between themselves, entered about ninety six country markets, or an average of thirteen each. A vast majority of these new foreign market moves were made since 2006, following the consolidation of the Nigerian banking sector driven by the Central Banking authorities. Also, whilst a preponderance of these new market entries were within the African region, there have been cases of expansion to key markets beyond Africa. The investigated TNCs are also increasingly able to source money from the international capital market, with one or more already registered as members of the London Stock Exchange.

Case evidence also suggested a strong prevalence of market seeking motivations among all the firms studied, expressed not only in their committed push to geographically close and demand-similar African markets, but also the forays to key global financial centres of London, New York, Paris and Beijing. Relationship seeking motives were also observed, notably in the expansion into the latter (global) markets, with brand building, strategic presence or prestige-seeking motivations emerging as important sub-themes.

The foregoing summary findings are clearly tentative, particularly given the present study’s preponderant reliance on secondary sources. They, nevertheless, raise a number of important policy issues, which are now discussed.

First, the finding that the examined TNCs, like their other Southern counterparts, tend to invest mainly in low income, demand-similar (Linder, 1962), African countries, including post-conflict ones is very significant, since such increased intra-African investment may lead to significant job creation, knowledge transfer and even infrastructure development in other African markets, which are typically deemed minimally attractive by major global MNCs. This essential focus on regional markets seems intuitively sensible at this nascent stage of the study firms’ development, as it reflects both the demand similarity model (Linder 1962) and the incremental/psychic distance notion of international expansion (Johanson and Vahlne, 1977; Yeung, 1999). It is also consistent with the conclusion of the recently released UNCTAD investment strategy for Nigeria, about the need for growth seeking companies to target regional market opportunities, as a learning platform for future expansion into major global markets (UNCTAD, 2008). Although not always consistent, previous studies on the impact of FDI on home economies largely suggest favorable net effects on employment, technological and managerial knowledge among others (Buckley et al. 2007; Moran, 2007). This also applies to MNCs from developing or emerging economies, particularly when they target other developing countries (Tolentino, 1993).



Second, the overwhelming importance of market seeking motivations and the resulting focus on regional markets by nascent African TNCs could lead to the emergence of more integrated African markets, with the size, scale and growth opportunities to sustain larger enterprises. Such regional markets may also provide viable learning platforms for African companies aiming to upgrade their skill-sets and competitiveness ahead of planned expansion into more competitive and challenging advanced markets. Thus, by initially extending their investment footprints to other African markets, these TNCs may be signalling a strategic intent to prepare for future global competitiveness. This evolutionary path is consistent with the learning-by-doing and 'stage'-based approaches observed among earlier generations of Third World Multinationals (Lall, 1983; Wells, 1983; Tolentino, 1993). The fact that a majority of the observed FDI activity occurred since 2006 suggests momentum; this and the upward trajectory of the investigated firms in global and regional rankings indicate brightening prospects for further international expansion. This is particularly welcome given the urgent *policy challenge* of mobilising the Africa's private sector to significantly boost its contribution toward meeting the Millennium Development Goals of minimising extreme poverty and hunger by 2015.

Third, the observed salience of prestige-seeking or brand development motivations among the study firms highlights the positive effects of peer benchmarking, including domestic rivalry, on FDI behaviour. Consistent with the pattern seen elsewhere and expressed in the emulation principle of international business expansion, it is expected that the activities of these nascent TNCs may inspire and challenge other local players to embrace the international path to significant growth and to develop those critical firm-specific and relational advantages that they need to become major foreign direct investors.

It is worth sounding a cautionary note at this stage in relation to the prospects of the identified TNCs and the policy reforms that spawned them. This seems sensible in view of previous false dawns in Africa, and concerns being expressed in some quarters regarding the readiness of the authorities to sustain and deepen the policy reforms that have, at least in part, facilitated the FDI activities discussed in the present paper. This suspected fragility was a sub-theme in a recent FT special report mentioned earlier in this paper.

#### **Future Research.**

As indicated elsewhere in this paper, the present effort represents an initial attempt to gain some understanding of the recent OFDI behaviour and motivations of emerging actors in parts of Africa not normally associated with such activity. Not unexpectedly, this paper has raised more questions than it has answered, thus highlighting the urgent need for concerted research attention to this topic area. The challenge takes at least two forms: expanding the breadth of research questions and improving the depth of coverage. Regarding depth of coverage, the preponderant reliance on secondary sources in this exploratory study suggests the need for a complementary empirical research effort to more fully address the key questions raised in this current study. More clearly stated, empirically based answers are still needed in regard to issues ranging from the internationalisation process and expansion pattern of emerging TNCs from Africa; their key sources of competitive advantage, i.e. resources, knowledge assets and capabilities, including relational resources or market-based assets; the dominant motivations for their FDI activities; and their future intentions and prospects. A clear understanding of their sources of competitive advantage is needed to improve the future prospects of Africa's nascent TNCs, and enhance their chances of growing into more impactful global players like their BRIC counterparts (Bartlett and Ghoshal, 2000; Sauvart, 2005).

Greater breadth can be achieved by identifying other emerging African TNCs and subjecting them to appropriate analysis similar to the attempt made in this paper. There is also the need to broaden research in this area to address issues such as how African TNCs manage their affiliates and subsidiaries, particularly in comparison with their counterparts from other emerging and advanced economies (see e.g. Martínez, Esperança and de la Torre, 2003). This might assist in identifying lessons that nascent African TNCs might learn from their counterparts from other emerging

economies and beyond. The question of the role of government and related institutions in furthering the international expansion and performance of these TNCs requires systematic examination, so is the matter of the impact of the activities of these TNCs on their home and host countries.

## NOTES

[1] Green (2008), for example, noted that ‘for all their global ambitions, the combined capital base of Nigeria’s 25 banks is still only about the size of the smallest of South Africa’s big four’. Other notable developing country MNEs include CEMEX (Mexico), Gazprom (Russia), ICICI bank (India), CNPC (China), Petronas (Malaysia), Arçelik (Turkey), among others.

[2] One of the focal firms, the UBA, for example was fined US\$15m by US regulators in April 2008 for falling foul of the country’s anti-money laundering laws in their New York branch.

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## **The influence of exchange rate on the inflow of Foreign Direct Investment in Nigeria**

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*This paper empirically examined the influence of foreign exchange rate on the inflow of foreign direct investment (FDI) in Nigeria. Using time series data from 1970-2009 and applying generalised method of moments (GMM) technique, we found that exchange rate has a significant and positive influence on FDI in Nigeria. We therefore recommended that further appropriate and adequate policies should be formulated and implemented with the overriding objective of strengthening the value of the naira and minimizing domestic inflation rate risks that can adversely affect the inflow of foreign direct investment in the country.*

### **INTRODUCTION**

Developing economies realize the need for the inflow of foreign capital to supplement inadequate domestic resources as a result of the shortfall of capital needs, relative to the capacity to save. Foreign capital is considered by many developing countries as an important element in their development strategies, compared to other avenues of foreign financing such as foreign private investment as it helps to improve technology.

Foreign direct investment is a form of lending or financial capital inflows and it generally involves the transfer of resources, including capital, technology, and management and marketing expertise. Such resources usually extend the production capabilities of the recipient country (Odozi 1995).

Attracting foreign direct investment (FDI) into Nigeria has become one of the most prominent strategies in the face of insufficient resources to finance long-term economic and social development and to reduce poverty. The underdeveloped nature of Nigeria's economy has limited the pace of economic development and this underscores the need for the inflow of foreign direct investment into the country.

For a developing country like Nigeria that is highly dependent on trade, the exchange rate, which is the price of foreign exchange according to Iyoha (1998) plays a significant role in the ability of the economy to attain its optimal productive capacity. Foreign capital generates employment in the host country when a multinational enterprise directly employs a number of host country citizens. According to Ekpo (1997), the factors influencing foreign direct investment include; inflation, exchange rate, uncertainty, government expenditures as well as institutional and political factors. Ekpo (1997) further argued that, for Nigeria, the factors affecting foreign direct investment include; return on investment in the rest of the world, domestic interest rates, rate of inflation, debt service, per capita income, ratio of world oil prices to world price of industrial countries manufactured goods, credit rating and political stability or instability.

The resource gap of low-income countries could be bridged while further build-up of debt can also be avoided in directly tackling the causes of poverty through foreign direct investment (UNCTAD 2004).

Foreign direct investment can be seen as an engine of economic growth in Africa where its need cannot be overemphasised since foreign direct investment can create employment and act as a vehicle for technology transfer, provide superior skills and management techniques, facilitate local firms' access to international markets and increase product diversity, (Ngowi 2001; Adeleke 2000).

The inflow of foreign direct investment into Nigeria has not been encouraging despite the effort of the Nigerian government in providing attractive and conducive investment climate for foreign investment. The need to pay serious and realistic attention to the link between exchange rate and foreign direct investment gap in Nigeria cannot be over emphasized because there is no definitive study to date that settles the theoretical and practical disputes of the effect of exchange rate on foreign direct investment.

Foreign direct investment is expected to have positive contributions to the economy. Notwithstanding, it has its own limiting factors to its free flow. This research work concerns itself with the extent to which foreign direct investment flow into the economy is influenced by exchange rate.

This study aims at evaluating the influence of foreign exchange rate on the inflow of foreign direct investment into Nigeria during the period 1970-2009. This research effort is considered relevant given the fact that inflow of foreign direct investment could help fill huge resource gap in Nigeria. Hence, a study of the probable determinants of foreign direct investment inflow is of great benefit to Nigeria.

This research will increase awareness of the impact of exchange rate on foreign direct investment in Nigeria and would contribute to the frontier of knowledge already existing on the subject matter. It will benefit the policy makers and the society in general as the knowledge obtained from it would help improve the inflow of foreign direct investment. The suggestions offered will be useful for future design, execution and performance of the exchange rate policies in Nigeria.

This paper is divided into five sections. Following this introductory section, section II reviews relevant theoretical and empirical studies while the methodology of the study is explained in section III. The data analysis and findings of this study are presented in section IV while section V contains the concluding remarks.

## **LITERATURE REVIEW**

Blonigen (1997) suggested that exchange rates can affect acquisition of FDI as this involves purchasing firm specific assets in the foreign currency that can generate returns in another currency. Using data on Japanese acquisitions in the US from 1975 to 1992, he showed that exchange rate movements matter because while domestic and foreign firms may have the same opportunities to purchase firm specific assets in the domestic market, foreign and domestic firms do not have the same opportunities to generate returns on these assets in foreign markets. Due to the unequal level of access to markets, exchange rate movements may affect the relative level of foreign firm acquisitions.

Froot and Stein (1991) asserted that foreign direct investment may be influenced by the level of exchange rate because depreciation of the currency of the host country against the home country will increase the relative wealth of foreign investors and therefore increase the attractiveness of the host country for the inflow of foreign direct investment since investors are able to acquire assets in the host country at a relatively cheap costs.

A different direction of argument for the relationship between exchange rate and FDI was however introduced by Campa (1993) who in his model noted that the decision of the firm to either invest abroad or not depends on the projections and expectations of future profitability. Consequent upon this, the higher the exchange rate level (measured in units of foreign currency per host currency) and the more it is rising, the higher will be expectations of future profits from entering a foreign market. Therefore, Campa's model predicts that an appreciation of the host currency will increase foreign direct investment into the host country, *ceteris paribus*, which is contrary to the prediction of Froot and Stein (1991).

Froot and Stein (1991) countered this argument by Campa (1993) with the claim that when capital markets are subject to information imperfections, exchange rate movements do influence foreign investment.

Unsustainable budget deficits and inflationary pressures have been generated in Africa through irresponsible fiscal and monetary policies according to Omankhanlen (2011). This has increased

production costs locally, generated the instability of exchange rate and made the region too risky as a location for foreign direct investment. Macroeconomic volatility in Nigeria manifests in different forms ranging from volatility in real growth rates, price inflation, investment per capita and government revenues per capita to fluctuations in terms of trade and real exchange rate. Medupin (2002) stated that at independence in 1960, private foreign investment in Nigeria accounted for 70% of the total industrial investment and over 90% of investment in such basic industries as chemical production, and vehicle assembly plants and no less than 90% of other manufacturing sub-sectors.

According to Adegbite and Ayadi (2010) foreign direct investment helps to fill the domestic revenue-generation gap in a developing economy, given that most developing countries' governments do not seem to be able to generate sufficient revenue to meet their expenditure needs. Given that there are a finite number of potential direct investments; countries with a high degree of currency risk will lose out on FDI to countries with more stable currencies (Foad, 2005).

## **METHODOLOGY**

This study focuses on the influence of exchange rate on the inflow of foreign direct investment in Nigeria. It uses the generalized method of moments (GMM) estimation technique where interest rate and political stability are not included in the model but are included in the instrument list because they are endogenously determined explanatory variables. A total of thirty nine (39) time series observations over a period of 1970-2009 were analyzed in this study.

### *Specification of the model*

The influence of exchange rate on the inflow of foreign direct investment in Nigeria was examined. Therefore, the implicit form of the model is specified as:

$$\log FDI_t = \beta_0 + \beta_1 \log EXCR_t + \beta_2 \log GDP_t + \beta_3 \log INF_t + \mu_t \quad (1)$$

In order to satisfy the order of condition for identification which requires the same number of instruments and coefficients, the list of instruments is:

$\beta_0$ ;  $\log INT_{t-1}$ ;  $\log INF_{t-1}$ ;  $\log GDP_{t-1}$ ;  $\log FDI_{t-1}$ ;  $POL_{t-1}$

Where;

FDI = Foreign direct investment

EXCR= Exchange rate

GDP = Gross domestic product

INT = Domestic interest rate

INF = Inflation rate

POL = Political stability

### *A-priori expectations*

We expect "a-priori" that  $\beta_1$ , and  $\beta_2$  which represents the coefficients of exchange rate and gross domestic product respectively, will be positive while  $\beta_3$  which is the coefficient of inflation is expected to be negative, indicating that all the parameters are expected to have a positive impact on foreign direct investment except inflation rate which is expected to have a negative impact.

### *The variables*

**FOREIGN DIRECT INVESTMENT (FDI)** – Is the movement of capital across national frontiers in a manner that grants the investor control over the acquired asset. There is a growing consensus that an increase in cumulative foreign direct investment would complement domestic savings to meet investment needs in a particular less developed country.

**EXCHANGE RATE (EXCR)** – Exchange rate is important to inflow of foreign direct investment. An over-valued exchange rate or highly distorted foreign exchange rate will discourage exports and negatively affect foreign direct investment. Exchange rates are expected to affect FDI inflows because they affect a firm's cash flow, expected profitability and the attractiveness of domestic assets to foreign investors (Erdal and Tatoglu, 2002; Maniam, 1998).

**GROSS DOMESTIC PRODUCT (GDP)** - A rapidly growing economy provides better opportunities for making profits than the ones growing slowly or not all (Lim, 1983) and an impressive rate of economic growth will be taken as a favourable signal by foreign investors when making investment decisions (Asiebu, 2003; Erdal and Tatoglu 2002). GDP can be used to capture the influence of proven economic performance (Obwona, 2003), so the annual growth rate of real GDP is used as a measure of how attractive the market is.

**INFLATION RATE (INF)** – A high inflation rate is an indication that government lacks the ability to manage the economy (Fisher, 1993). Hence, high inflation rate is expected to lead to a contraction of foreign investment by raising the risk of long term investment projects, and distorting price signals in the economy.

**POLITICAL STABILITY (POL)** – Political stability is important for creating a climate of confidence for investors. Political instability whether perceived or real could be a serious deterrent for FDI as it creates uncertainties and increases risks and costs (Obwona, 2003). The frequency of coup d'état in the country is used as a measure of political instability and the transition to democracy would be used as an indicator of political stability. Dummy variables would be used to capture these variables and their effect on FDI.

## RESEARCH FINDINGS

### PRESENTATION AND INTERPRETATION OF THE GMM RESULT GMM RESULT:

Instrument list: LOG(FDI(-1)) C LOG(EXCR(-1)) LOG(GDP(-1))  
 LOG(INF(-1)) LOG(INT(-1)) POL(-1)

Variable	Coefficien t	Std. Error	t-Statistic	Prob.
C	4.219107	0.896784	4.704708	0.0000
LOG(EXCR)	1.197472	0.096894	12.35858	0.0000
LOG(GDP)	0.335722	0.119425	2.811143	0.0080
LOG(INF)	-0.644592	0.308001	-2.092825	0.0437
R-squared	0.940984	Mean dependent var		8.881938
Adjusted R-squared	0.935925	S.D. dependent var		3.148750
S.E. of regression	0.797044	Sum squared resid		22.23477
Durbin-Watson stat	1.133072	J-statistic		0.112502

Source: Authors' computation (2011)

From the regression result above, we obtained the following:

$$\log FDI_t = 4.22 + 1.20EXCR_t + 0.34GDP_t - 0.64INF_t$$

The parameter estimates comply with 'a priori' expectations of a positive relationship between foreign direct investment and the exchange rate, gross domestic product while domestic inflation rate has the expected negative relationship with foreign direct investment as indicated by table 4 above.

The coefficient of determination ( $R^2$ ) value is high at 0.94 and statistically different from zero. Thus, there is a significant relationship between the foreign direct investment and the independent variables as they account for over 94% of the variations in the foreign direct investment.

The Durbin-Watson statistic of 1.13 suggests that there is a positive autocorrelation between the independent variables. The justification for this result is that the exchange rate and other explanatory variable are significant in explaining the variations in the explained variable as indicated by the t-statistic. The j-statistic of 0.11 is very low, showing that all the explanatory variables are jointly significant in explaining the behavior of the explained variable.

## CONCLUSIONS

The impact of exchange rate on the inflow of foreign direct investment has been analyzed in this study.

The model makes economic sense because the parameter estimates complied with the 'a priori' expectations of a positive relationship between exchange rate and foreign direct investment while inflation rate was also significant and complied with the negative 'a priori' expectations as set by economic theory.

The results obtained indicated that the inflow of foreign direct investment into Nigeria has been significantly and positively affected by exchange rate. The result indicated that there is a very strong and positive correlation between the explanatory variables and foreign direct investment. It has also been shown from the data collected that on the average, exchange rate has performed positively in influencing the inflow of foreign direct investment in Nigeria.

Our recommendation centre's on how to stabilize the domestic inflation rate for improved inflow of foreign direct investment by maintaining a single digit inflation rate. Exchange rate should be given due attention in order to gain maximum benefits that accrue from foreign direct investment in Nigeria.

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## **Financial globalization and domestic investment in developing countries: Evidence from Nigeria**

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*Financial globalisation is hypothetically helpful to a country to the extent that capital inflows augment available domestic savings for investment purposes. This may be impossible where a globalised country finds itself experiencing more capital outflows than inflows. In this study, we identified the factors that determine the level or degree of financial globalisation of a country as the nominal exchange rate, the level of financial development as captured by the level of financial deepening of the financial system and trade. Using the Kaopen (Capital opening index) and average exchange rates measures of financial globalisation the paper found that, for Nigeria, the greater the level of financial globalisation, the more Nigeria experienced capital outflows. Export is particularly positively impactful on capital outflows. Capital outflows have depleted available domestic resources and impacted domestic investment negatively. The paper recommends the greater need for autonomous investment to crowd in other investments by implementing policies that encourage investment in the economy. This situation may not improve until there are proactive and deliberate actions from the government to improve investment, especially of infrastructure, in the economy*

### **Introduction**

Real investments by governments, business firms and households boost capital formation in any economy and help to increase productivity, employment opportunities and income. A matter of concern however is the level of investment in a country relative to the level of potential or aggregated or financial savings in the domestic financial system. If the level of savings and investment is low, the tendency to undertake external borrowing by both private and public sectors becomes high. In sum, the potential level of income is determined by the amount of capital available. When domestic capital is not available, there is the tendency to resort to external borrowing Ajayi (2000). At most times capital inflows or outflows in the domestic economy has been fostered more by the ability of capital to freely flow from one country to another than by any deliberate monetary policy management. The opening process of the capital account and the liberalisation of the exchange rates regime have somewhat allowed freely flowing capital into hitherto closed economies. Those economies have taken advantage of such capital to maximise investment in the domestic economy.

Capital flows are usually dominated by foreign direct and portfolio investments which are privately powered, highly mobile and essentially return-seeking (Bekart 2005). In the last decade, capital flows have been higher than at any other time in history. Such capital flows have been enabled and propelled by financial globalisation and integration among economies of countries of the world (Prasad *et al*, 2003). However, capital that is engaged in real investment in most developing countries is stable, and less return chasing in the immediate term. This category of long-term investment capital is lacking in Nigeria. This is a problem of most developing countries since very little of investment is made for capital formation.

The broad objectives of this paper are to find out the relationship, between financial globalisation and domestic investment and to examine the challenges financial globalisation can pose to domestic investment during this era in Nigeria. It specifically finds out the channels through which financial resources are lost in Nigeria and its impacts on financial saving. Hypothetically, it is averred that financial globalisation has not significantly led to loss of capital, thereby reducing investment. The paper is organised as follows: following after the introduction is the review of literature on domestic



investment and financial globalisation. Section three deals with the models and methods, section four discusses the results and section five concludes and makes recommendations.

### ***Domestic Investment: The Literature***

Domestic investment is the acquisition of income-producing assets within the economy rather than abroad. Physical assets particularly add to the total capital stock. Boosting economic development requires higher rates of economic growth than domestic savings can provide. The role of domestic savings in the investment process is positive. While short-term investment is encouraged by external sources of fund, long term investment is driven more by domestic forces. With lower rates of interest, asset values tend to be on the upward swing, which reflects the discounted value of such assets. Such higher asset values increases the rate of acquisition and investment and thereby increasing aggregate demand. Total supply increases in response to greater aggregate demand, and this generates a further increase in demand - forming a virtuous cycle. Investment therefore, is not constrained by aggregate savings but more by domestic interest rates (Monetary Policy Rates) as set by the Central Bank, who invariably has other objectives apart from maintenance of low inflation and increasing the level of savings in the domestic economy (Moore, 2006).

Generally, sub-Saharan Africa has lagged behind in saving rates among other regions of the world. While savings rates have doubled in south East Asian countries and increased in Latin American countries, it has stagnated in sub-Saharan Africa, according to Loayza, Schmidt-Hebbel and Serven (2000). Since savings, investment and economic growth are linked; unsatisfactory or poor performance of one affects the other, and could lead to stagnated growth, which in turn can affect the viability of the BOP (Chete, 1999). Attempts at reducing expenditure have affected investment rates and have led to poor and sluggish growth which has eventually affected savings performance (Khan and Villanueva, 1991). The provision of infrastructure in the economy with autonomous investment is more government propelled and powered and may not be generated from savings.

Sub-optimal allocation of resources due to governance and political-economy issues in Nigeria is partly responsible for the low rate of domestic investment in Nigeria according to Collins and Bosworth (2003) as cited in UNCTAD (2007). Though no statistics is available to support this, the above-mentioned factor is most-likely, responsible for low Total Factor Productivity (TFP) growth. With Nigeria's low level of savings and investment profile, Nwachkwu and Odigie (2009) recommend the increase in the production base of the economy in order to increase the two variables, increased savings and investment can be achieved by encouraging increase in funding for the diversification efforts away from oil. The real rate of interest is important because the nominal rate cannot encourage financial savings as depositors face purchasing power risk overtime. Where this is overlooked as a result of regulation, the spread between interest rates on savings and lending becomes an issue that must be tackled, if investment and savings must be encouraged in the economy. The spread between deposit and lending rates have remained high, ranging between 10% to 20%, depending on the bank [(The older banks have a structure of lower interest rates than the younger banks) CBN, 2009]. To encourage investment in long-term assets (which increases the capital stock in the economy), the Small and Medium Scale Enterprises can be deepened as enunciated in the Financial System and Strategy 2020 document (Oyelaran-Oyeyinka, 2008).

The attitude of Nigerian banks in the savings and investment analysis of Soyibo (1994) raises a great concern as the findings prove that banks' lack of interest in investment lending is basically due to profit motive (the banks were forced to lend to specific sectors before this time) as earlier alluded to in Ojo (1976). In addition, Soyibo (1994) catalogued the problems that have not allowed savings to transform to investments as, inadequate information about investment opportunities, unpredictability of the domestic economic environment, and lack of adequate infrastructure. Further, investment waned as short-termism and preference for high returns and liquidity prevailed. In the banks' lending decisions for investment purposes, ability to repay was significant, followed by the profitability of the sector. The trend assumed by bank-assisted investments in Nigeria reveal that the deposit money banks (DMBs) financed a lot of capital investment before 1976, such bank financing amount to an annual average of 37% of total investment. This proportion dropped until it reached the level of 14.6

% for the period 1996 – 2006. The share of loans to the services sub-sector increased from 0.3% in the seventies to 11 % in the nineties. Also, these classifications that have a figure of 43.3% comprise of other loans i.e. loans for other purposes outside of investment. It is however clear that the financial services is taking the driver seat in propelling investment according to theory (Nnanna *et al*, 2004). The CBN (2007) reports that larger portion of credit went to the miscellaneous sector, which has many variables and continues to increase with consumer credit. The mean credit to the agriculture sector was only 3% during this period, international trade received 2% the productive sectors of the economy (mining 9%, manufacturing 19% and agriculture, 3%) received 31% of total credit.

The relationship between physical investment and GDP is considered the most important of the factors antecedent to growth (Levine and Renelt, 1992). Liquidity preference is one of the main reasons why investors prefer to invest in financial instruments. A positive correlation has been established between investment and economic growth (Chenery and Strout 1966, Iyoha 1998). Iyoha (1998) was able to use investment-income ratio with data between 1970-1994 to establish that a 10% per cent rise in investment-income ratio will lead to a 3% rise in per capita Gross National Product in the short run and 26% in the long run. Aggregate investment, comprising of both private and public investment, is needed for rapid growth and development of the economy. The investment made in people (human capital) as well as investment in infrastructure are seen to be the best as they produce multiplier effects in the economy in the long run.

Low real interest rates are expected to encourage investment in the economy. While Uchendu (1993) agrees that the low level interest encouraged direct private borrowing for investment purposes, this regime of interest rates has been blamed for retardation in the development of the financial system as it encouraged capital flight and poor loan discipline. Bogunjoko (1998) surmises that though financial savings increased this did not translate to investments. Reasons for this are not farfetched: banks avoided long term and became risk-averse, preferring short term loans with good liquidity prospects to development oriented projects and real investments. Public sector spending has been said to be a major contributor to investment in Nigeria, though exaggerated and its effect much lower than acclaimed; especially where some degree of external financing has been involved (Akintoye and Olowolaju, 2008). Akintoye and Olowolaju recommend policies to achieve increases in domestic investment and real output while efforts should be made to promote private domestic investment in the short, and long run.

#### ***Sources and Determinants of Domestic Investment***

Sources of investment could be external or internal and private or public. Tella (1998) employed the Harrod-Dormar growth model in his analysis of this problem. Whereas, Moore (1998) believes that savings does not constrain investment, Tella with the Harrod Dormar model asserts that, given a level of national income, the aggregate spending or consumption will in the long run affect savings, and the only way to encourage investments is to introduce policies that will encourage savings. The financial institutions that provide capital for investment in Nigeria include Deposit Money Banks (DMBs), and Development Finance Institutions (DFIs). The list has been increased by the rapidly-expanding pension funds sub-sector that is accumulating funds at a high rate. The issue of infrastructure showed has up as a recommendation for improving the investment climate in Nigeria (Oyeranti 2003 and Oyelaran–Oyeyinka 2008). The other sources of financing investment are external, made-up of the accumulated savings of other countries, which are accessible through loans, grants and equity participation. External finance could come through foreign portfolio or direct investments; supranational financial institutions have also provided funds for the purpose of investment in Nigeria. The International Development Association (IDA), African Development Bank (AfDB), United Nations Development Program (UNDP) and lately the European Union (EU) have influenced the direction of capital investments in Nigeria.

Privatisation of State Owned Enterprises (SOEs) is significant either in encouraging domestic investment by indigenous entrepreneurs or in partnership with foreign investors. Since most foreign investors prefer *brownfields* and cross-border mergers and acquisitions to *greenfields*, the impact of

divestment process of government from the State Owned Enterprises (SOEs) becomes important. Soyibo, Olayiwola and Alayande (2003) study shows that the erstwhile SOEs increased their investment profile after being privatised.

**Financial Globalisation and Financial Development**

Itto and Chinn (2007) constructed a financial globalisation index for many countries which included Nigeria from where one can conclude that Nigeria is not financially globalized. Financial deepening is perhaps the most important of the variables of financial development. The others are money supply and credit to the private sector. Adegbite (2007) is replete with the different measurements of financial globalisation. Trade is seen as the most important of all the measures of financial globalisation as there would be no financial flows without the exchange of real goods and services across countries. Trade is also indicative of the level of real flow inter-relation between the domestic economy and the rest of the world. However, basic approaches to measuring financial globalisation have been on the level of *relaxation of controls* and generally the relative *level of financial flows* each being measured from different angles. Chinn and Ito (2007) index is, exchange rate and regulatory environment based and is also a measure of financial openness. From all indications, the *de facto* measure, which should be superior, could be illegitimate in most developing and emerging economies as is the case of Nigeria. The Uncovered Interest Parity model uses a price-based measurement rather than asset and liability based approach adopted by Lane and Milesi-Ferretti (2008).

However, Klein and Olivei (1999) and Levine (2001) show that financial liberalisation promotes financial development while Beck *et al* (2000) prove that financial liberalization fosters productivity more than capital accumulation. Bonfiglioli (2007) proves that the stage of development of the country is fundamental to the ability of a country to transmute capital inflows into real and financial development as developing countries spend more on investment i.e. higher aggregate expenditure on physical capital and development of infrastructure at lower levels of economic development with direct positive effect on productivity.

Nigeria’s experience on the financial globalisation terrain may not have been documented (as this study found out). However, a sociological perspective of economic globalisation indicates that the experience has not been salutary, as it appears to have been foisted on most developing countries as part of the debt-settling programmes. On the balance Olikoshi (1998) and Onyenoru (2003) report the dismal performance of the real sector of developing countries since the onset of globalisation. Globalisation seems to have benefited the multinational firms and the developed countries but not the developing countries. Furthermore, the inflow of capital needs to be complemented with adequate structures and infrastructure on ground before it can yield the expected and theorised dividends. The *de jure* index of financial globalisation is more explicit and has been improving gradually, with the process of adjustment programmes Nigeria undertook since the mid 1980s. The index has a maximum of 2.543 for completely open and floating exchange rates. Index for Nigeria moved from -1.12942 in the seventies to -0.45086 as at year 2007 and has dropped further with current practices.

**Models and Data Sources**

The study adopts a modified version of Heim (2008) model of domestic investment. For this study on Nigeria, Investment is a function of average exchange rate, financial savings, public sector borrowing requirements, all share price index and real gross domestic product in the economy.

Specifically,

$$Inv_t = f(\alpha_0 t \beta_1 X_1 \beta_2 X_2 \beta_3 X_3 \dots \beta_n X_n) \dots \dots \dots (1)$$

$$INVT = (AVEXRATE, FSAVS, PSBR, RGDP, ALSI) \dots \dots \dots (2)$$

$$INVT = \alpha + \beta_1 AVEXRATE + \beta_2 FSAVS + \beta_3 PSBR + \beta_4 RGDP + \beta_5 ALSI + \beta_6 CAPUTIL + \epsilon \dots \dots (3)$$

Where: INVT = Investment

AVEXRATE = Average Exchange Rate

FSAVS = Financial Savings  
 PSBR = Public Sector Borrowing  
 RGDP = Real Gross Domestic Product  
 ALSI = All Share Price Index  
 CAPUTIL= Industrial Capacity utilisation  
 $\alpha, \beta_1, \dots, \beta_5$  = Parameters  
 $\varepsilon$  = Error Term

While the financial globalisation determinant are modelled as below

$$FA = \alpha + \beta_{avexrate} + \beta_{tradeopeness} + \beta_{findeepn} + \beta_{gdppc} + \beta_{pop} + \text{export} + \beta_{kaopen} + \varepsilon \dots (4a)$$

$$FL = \alpha + \beta_{avexrate} + \beta_{tradeopeness} + \beta_{findeepn} + \beta_{gdppc} + \beta_{pop} + \text{import} + \beta_{kaopen} + \varepsilon \dots, (4b)$$

Where *FA* and *FL* are the alternate dependent variables for external financial assets or liabilities, *Avexrate* is the average rate of exchange; *findeepn* represents financial deepening i.e. M2/GDP. *GDPPC* is per capita output. *POP* represents the population. The use of *IMPORT/EXPORT* is adopted for financial liabilities and assets respectively and *Kaopen* represent the index of capital account opening and  $\varepsilon$  for error term. *KAOPEN* measures the intensity of the openness of the capital account of the BOP. *GDPPC* is used to represent per capita Gross Domestic product measures the GDP per member of the population and product and services. The measure of trade openness is the sum of export and import divided by the Gross Domestic Product of the economy. Openness to trade is more propelled by the liberalisation of the current account, which is where real values are transacted. *TRADEOPEN* is used in the regression process. It is denoted thus  $(X + M)/GDP$ . Capacity utilisation is adopted to measure impact of industrial production on investment, since the expenditure on machinery and equipment have multiple effect on output and production.

*FINDEEPEN* (financial deepening) is used as a proxy for financial development. The process of becoming a financial centre can be more propelled by financial deepening and it is operationally defined as *the availability of more financial services and products from both the bank and non-banking financial institutions which results in higher circulation of money in the financial system*. The other variables adopted for the estimation of the *de facto* financial globalisation of Nigeria are *imports* and *exports*. The two are adopted here to measure the impacts in the globalisation process and in the asset and liability acquisition of the Nigerian units externally. Exports are included in the asset acquisition, while imports can lead to liability acquisitions. The *avexrate* is the rate of exchange which is important in the process of foreign investment.

Data sources are from the International Financial Statistics, (IFS) of the IMF for external assets and liabilities, per capita income real gross domestic product. Exchange rates and trade variables are from Direction of Trade (DOT). Public sector borrowing and share index values, savings and investment were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin. Data is from 1970 to 2007, all in nominal form.

### Discussion of Results and Observations

Dollar translated investments have dwindled sharply and domestic investment is insufficient to match-up external assets acquisition in the post globalisation period. The Public Sector Borrowing Requirement (*PSBR*) was initially significant; however it eventually tapers off showing the trend of reduced government reliance on banking resources to finance investments in the country. Table 1 shows the descriptive of the equality test of the variables of *INVT*, *DINVT* (dollar translated investment) and *FSAVS* under the pre and post periods of financial globalisation. *DINVT* shows that the country is not making enough investment to match the pre globalisation period, though the nominal figures of the *INVT* shows that the investment is higher. The impact of high exchange rate has reduced the *DINVT*, while the *FSAV* has increased tremendously, it has not impacted *DINVT*. Capital that would otherwise have been used for domestic investment has escaped from the country and resources have been lost.

**Table1** Test of Equality between the Series of Variables

Measures	Globalisation Status	DINVT (\$)	FSAV (₦)	INVT (₦)
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Mean	Pre Globalisation	9805.16	4.34506	6467.61
	Post Globalisation	3194.58	433.7	189461
Maximum	Pre Globalisation	18152	12.51	12215
	Post Globalisation	6203.9	2693.3	512450
Minimum	Pre Globalisation	1231.9	3410	880
	Post Globalisation	1353.54	13.93	5573
Standard Deviation	Pre Globalisation	6133.04	4.00773	3786.84
	Post Globalisation	983.652	663.909	179506

**Source: Descriptive of selected Variables. DINVT: Dollar translated investment**

The *GDPPC* of the country in the financial globalisation process shows that the variable does not significantly affect financial globalisation. External assets acquisition by entities in Nigeria as means of asset diversification has yet to reach a significant proportion. The market determined exchange rate is positively related to domestic investment. This is also noticeable in the *de facto* financial globalisation determinants in both asset and liability acquisition in the country. Therefore, the exchange rate management process is important to the resolution of the problem. The situation can be more worrisome where there is preponderance of financial investment over real investments as represented by the significance of *ALSI* in Table 2. Portfolio investment can quickly flow out as it has flown in.

**Table 2 Regression Estimates (Dependent Variable – Domestic Investment)**

	All Periods	Pre Globalisation period (1970-1985)	Post Globalisation (1985-2007)
Constant	-82330.45 (-1.18975)	-14160.27 (-0.2181)	-31809.48 37062.07
Finsavings	162.517 (37.18)**	687.146 (8.426)***	192.5335 (46.035)***
Avexrate	2052.25 (195.072)***	679.0332 (4.4135)***	1676.837 (266.765)***
PSBR	1.239 (0.488)**	-4.7800 (-2.7034)**	2.226 0.7586***
RGDP	-0.0379 (0.0208)**	0.2447 (0.1055)	-0.0522 (0.0252)**
ALSI	0.0360 (2.2606)**	-	0.0496 (0.0184)***
Caputili		116.4 60.53*	-583.302 (930.29)
R Squared	.976	.98	.98
Adjus. R Squared	.970	.98	.97
F Statistics	276.72	378	124.
Durbin Watson	2.22	1.94	2.09
Observations	37	14	23

**Note:** OLS estimates. Standard errors are in parentheses. \*\*\*, \*\*, \* denote significance at 1, 5 and 10 percent levels respectively

The result indicates that *CAPUTIL* has steadily worsened from a significant level in the pre-globalisation estimates to showing no significance in the post-globalisation period. *ALSI* shows that it is highly significant for the post-globalisation period rather than the pre-globalisation period showing higher interest to invest in liquid and financial instruments rather than real investment – a loss to capital formation in the economy. The use to which Nigeria has employed the global financial market in the sourcing and usage of funds and the direct linkages with international financial centres is measured by the *de facto* determinants. For the rate of exchange (*avexrate*), financial asset is

significant beyond *0.05 level* indicating the tendency of lower exchange rates at encouraging the acquisition of liabilities by Nigerians abroad at the pre globalisation period.

*Export* as an independent variable was more significant in acquiring financial assets outside Nigeria than import was in acquiring liabilities. The indication here is that Nigerians have significantly used export proceeds to acquire foreign assets and most probably engaged in capital flight, and this at *0.01 level* of significance. For both periods of pre and post-globalisation, the feature is the same as the foreign assets are higher than foreign liabilities. The *Kaopen* measure that has not been significant in some of the countries is significant in the pooled data at *0.10*. Going by this analyses Nigeria is can be said to have achieved a level of financial globalisation. One can conclude that the financial globalisation process has increased the interest of Nigerians to acquire assets externally resulting in loss of capital.

It is evident that the country is yet to be able to align itself with the reality of financial globalisation. This means that opening up more could be dangerous for the country, leading to serious outflow of resources unless investments are made to pull the resources back. If assets have been acquired by Nigerians externally, it shows that the economy had not benefitted from available savings needed for investment in the economy. It also indicates that Nigerians prefer to invest their capital outside the country to the disadvantage of the domestic economy consequently leading to loss of domestic savings in the process. Table 3 shows results that indicate *FinDeepn* is no longer significant after being so initially.

**Table 3 Regression Estimates of Nigeria Financial Globalisation**

Variables	Financial Assets (a)	Financial Liabilities (b)	Pre Globalisation Financial Assets (a)	Post Globalisation Financial Asset (b).
Constant	23999.53 (2.548)	-99451.83 (-0.84878)	-1281.549 (922.122)	-164872. (-10065)
AvexRate	-3192.14 (-0.4899)	1429.81 (1.96685)**	447.00 (248.32)	2444.13 (1.1905)
Kaopen	835771.6 (3.8271)***	-22977.99 (-0.952264)	-850.54 (656.99)	3480 (2.1608)**
GDPP Capita	58.2135 (0.895975)	-5.556 (0.429)	0.008 (0.0119)	3.147 (0.1903)
FinDeepn	-41965.68 (-2,0602)**	2918.39 (1.4302)	-6.746 (4.457)	0.0111 (0.0264)
Export	94.732 (7.224)***		-0.0015 (0.003)	59.004 (2.548)***
Population	-13066.46 (0.8874)	256.36 (0.15)		16636.8 (0.9791)
Import		-1.759 (-0.6)		
Tradeopenesss	-2159.77 (-2.8248)***	90.516 (1.0119)	0.294 (0.117)**	0.0001 (0.0004)
D Watson	1.73	1.71	1.62	2.06
R <sup>2</sup>	.92	0.62	0.73	0.97
Adj. R <sup>2</sup>	0.90	0.53	0.56	0.95
F Statistic	49.83	6.77	4.45	67.74
Observations	37	37	17	20

**Note:** OLS estimates. *t* statistics are in parentheses. \*\*\*, \*\*, \* denote significance at 1, 5 and 10 percent levels respectively

## Findings, Conclusion and Recommendation

### *Findings and significance*

The following major findings can be deciphered from the study:

Government have funded most of its public expenditure through borrowing from banks, such bank funds could have been lent to the private sector for investment purposes which would have had multiplier effects on economic growth. The implication is that government borrowing crowds out domestic private sector investment.

1. Financial savings that enable banks to have resources for investment is shallow and can hardly support any meaningful real investment in Nigeria. The implication of this is that foreign direct investment inflow can be discouraged since good investment environment is lacking in Nigeria.
2. The preponderance and *skewness* of the financial system towards short-term investments which is little benefit (if any) and cannot encourage growth in Nigeria.
3. Investments are not being made in the real sector somehow, and those that have been made are in liquid assets.

## Recommendations and Conclusions

It is recommended that Nigerian banks and other firms begin their financial globalisation and integration efforts from the Economic Community of West African States (ECOWAS) sub-region, since it is a dominant economy and the forces of financial centre should normally gravitate towards the country. Policymakers should encourage real investments in the economy, to crowd in other investments by making the environment more investment friendly for both foreign and domestic investors. This can be done by using fiscal incentives to encourage investment.

In addition, policymakers must work on the investment environment to create enabling environment for further investment in the economy and encourage inflow of foreign direct investment by providing infrastructure. In the current era of reduced investment of the government on infrastructure, (the main situate of autonomous investment), it is important that the government through Public Private Partnership (PPP) encourage further investment in the economy.

Banks should be encouraged to provide other investment outlets that yield higher than money market returns with a guarantee fund or insurance by the government to investors of a significant value. These would reduce the rate of resident capital outflows out of Nigeria. Further deepening of the financial system to be more innovative in creation of products that meet the desires of high profile clients would assist in ensuring that capital is invested domestically rather than taken out of the economy. The monetary authorities would have to make conscious and deliberate efforts to infuse confidence in the banking system in order to sustain domestic investors' interest. Also, the confidence of foreign investors should be assured through good management of the rates of exchange. Market-determined rates would help in adequate evaluation of incoming resources.

This paper has studied the impact of financial globalisation on domestic investment in Nigeria. The paper has found out that rather than the country benefiting from financial globalisation as theory suggest, the current level of financial globalisation achieved by Nigeria is not beneficial as financial resources are being lost. In addition, the need for market determined exchange rates to further engender inflows of capital is important, while the exports should be intensified while the repatriation of proceeds should be encouraged. Banks should play proactive role in the financial globalisation process.

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## Financial Sector Liberalization and Location Determinants of Foreign Banks in the Banking Sector: Evidence from Ghana

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*The study investigates the financial sector liberalization and the location decisions of foreign banks in the Ghanaian banking sector. The study aims to fill the research gap by providing a new model for FDI location decision in the banking sector. Available empirical evidence reveals that macroeconomic policy factors are ranked as the highest decision location factors followed by political and legal factors, market factors and infrastructure that influence MNEs' decision to locate in Ghana. This study also finds that labour factors are the least important location decision factors.*

### Introduction

The economic liberalisation and restructuring of the economies of many sub-Saharan African countries in the last three decades have gained a lot of publicity and Ghana is no exception. In May 1983, the Ghanaian government assisted by the World Bank and the IMF introduced an Economic Recovery Programme (ERP) to tackle the deteriorating economy, address economic imbalance, and promote growth through enhanced economic liberalization. Since then, Ghana has made considerable strides in opening her economy to world trade, thus eliminating exchange controls and non-tariff barriers. Financial deregulation, developments in the telecommunication and IT technology and globalisation of capital markets are benchmarks which have encouraged foreign direct investments (FDI) inflows in the banking sector in recent years (Moshirian, 2001).

The aim of this study is to address the gap in our knowledge and serve as a first step to broaden the understanding of financial markets' liberalisation and its impact on Multinational banks' decision to locate in Ghana. Specifically, the main objectives of this study are (a) to evaluate the location factors as major determinants of FDI location decision in the Ghanaian banking sector; (b) to critically assess the importance of the attractiveness of Ghana as a location hub. The authors believe that this study would be useful to academics, business researchers, existing MNEs operating in Ghana and provide useful information to MNEs wishing to operate in the country in the foreseeable future. The study is organised as follows: the second section conducts a review of the recent literature followed by the economic outlook of Ghana which includes the financial services market reforms. The third section examines the research methods and data sources followed by a discussion of the empirical evidence. Finally, the last section provides the conclusion, limitations, and avenues for future research.

### Research Questions

Following researchers such as (Oh, 2001; MacCarthy and Attirawong, 2003; Buckley, Devinney and Louviere, 2007; Galan, Benito and Vicente, 2007; Tam, Newton, Strange and Enright, 2008, among others), this study adopts the research questions mentioned below to ascertain whether the location factors indeed influence foreign banks' FDI location decisions. The research aim and objectives are guided by the following research questions:

- Q1: *What is the relative importance of FDI location factors in the Ghanaian banking sector?*  
Q2: *What is the relative importance of the attractiveness of Ghana for MNEs to locate?*

The main hypothesis are categorised into major factors and sub-factors.

Question 1 is expressed in hypothesis form as;

H1: *What is the relative importance of FDI location factors in the banking sector in Ghana?*

The sub-factors are also expressed in hypothesis form as;

H1a: *Market factors play an important role in FDI location decision in the Ghanaian banking industry*

H1b: *Labour market factors play an important role in FDI location decision in the Ghanaian banking industry*

H1c: *Macroeconomic policy factors play an important role in FDI location decision in the Ghanaian banking industry*

H1d: *Infrastructure factors play an important role in FDI location decision in the Ghanaian banking industry*

H1e: *Political and legal factors play an important role in FDI location decision in the Ghanaian banking industry*

Question 2 is formulated in hypothesis form as:

H2: *What is the attractiveness of Ghana on each of the location factors as a place of investment?*

The sub-factors for Question 2 are also expressed in hypothesis form as;

H2a: *Market factor is an attractive determinant for FDI location in the banking industry*

H2b: *Labour market factor is an attractive determinant for FDI location in the banking industry*

H2c: *Macroeconomic policy factor is an attractive determinant for FDI location in the banking industry*

H2d: *Infrastructure factor is an attractive determinant for FDI location in the banking industry*

H2e: *Political and legal factor is an attractive determinant for FDI location in the banking industry*

### **Theoretical Perspective on Foreign Direct Investment (FDI)**

The literature on FDI location factors covers a wide and broad area. The factors that are traditionally perceived to influence the location decision of multinational enterprise are known as classical variables; these include the size of the market and labour costs (Jones and Wren, 2006). Recent research has focused on all kinds of location factors, which are known as the agglomeration reason for the FDI location. Given that the literature on location is characterised by a loose terminology, McCann and Sheppard (2003) formally distinguished between an agglomeration from an industrial complex and social network (the latter is often referred to as a 'cluster'). An agglomeration involves firms in competition that are co-located in an urban area. Jones and Wren (2006) state that the external effect or externality, possibly in the form of a 'spillover' gives rise to an agglomeration economy, and may encourage a foreign-owned firm to set up in an area where firms in a similar activity are present.

According to Dunning (1980, 2000), the eclectic paradigm has remained the dominant analytical framework for accommodating a variety of operationally testable economic theories of the determinants of FDI and the foreign activities of multinational enterprises. Gray and Gray (1981) applied this paradigm to the banking sector. According to these authors, for a bank to enter into a foreign market, it must be able to present some specialised service or have some advantage to be able to generate profit from the national market. Williams (1997) argues that "there are few opportunities for monopolistic advantages for bank". With strict national regulations, it is quite difficult to maintain a monopoly as it is difficult to patent bank products. The eclectic paradigm can be explained using three sub-paradigms.

First, ownership (O) gives an overview of the competitive advantage of enterprises seeking to engage in FDI. It claims that firms seeking investment outside their home countries possess some kind of unique and sustainable advantage. However, some traditional theorists argue that all firms have equal access to some resources and capabilities within their own countries. Ownership-specific factors provide a platform for foreign banking affiliates – a competitive advantage for the domestic banks of a host country in the local market. Yannopoulos (1983) discusses the role of national currencies in the international monetary system mainly in the settlement of international trade. Banks with easy access to vehicle currency funds have a competitive advantage over other banks as the use of these currencies reduces transaction costs. Peng (2001) claims that in order to protract competitive advantages, firm-specific advantages need to be both exploited and developed in the context of

international business. In concurrence with the assertion of Peng (2001), Lou (2000) claims that as firm-specific resources are exploited in a foreign host market, new resources and capabilities are simultaneously created. In contrast to the debate of the competitive advantage in ownership, Michael Porter argues, “Anything that can be moved or sourced from a distance is no longer competitive advantage” (Porter, 1996).

Furthermore, Cho (1985) claimed that the main basis of banks’ ownership advantage can be viewed in a number of proportions; these are: (i) size of the bank; (ii) access to funding; (iii) sources of currencies (iv); knowledge and experience in multinational banking operations (v); knowledge and experience of a particular market; (vi) scope of the bank’s international network; (vii) a bank’s creditworthiness (viii) availability of skilled personnel; (ix) product differentiability; (x) possession of customers with high international involvement. Cho (1985) explains further that the bank’s knowledge, which comes from experience in operation, products, markets and customers, is very important.

According to Dunning (1998), the eclectic paradigm has always recognised the importance of the location (L) advantage of countries as a key determinant of foreign production of multinational enterprises. Knickerbocker (1973) provides the first attempt to give insight into the geographical clustering of FDI and found that there was a relationship between FDI and competition in oligopolistic industries. Grubel (1977) used the ‘follow-the-client’ hypothesis and found that banks on foreign soils will gain a competitive advantage in providing their clients great local knowledge and also providing physical presence in the provision of finance. Mmieh and Owusu-Frimpong (2004) argue that as advanced countries become affluent, they continue to pursue FDI in geographical locations that have economic growth. Dunning (2000) discusses that banking is a market-oriented business. Direct and personal contact with both actual and potential clients wherever they are located is essential. Gray and Gray (1981) address the need to have three location-specific considerations: (a) the need to preserve established customer accounts; (b) the desire to enter into growing or high-growth markets; and (c) the need to ensure access to indigenous supplies of key currencies.

Dunning (1998, 2000), in explaining why firms choose to engage in FDI rather than buy or sell intermediate products in some other way, develops the notion of Internationalisation (I) theory. According to Dunning (1998, 2000), Internationalisation theory has provided a dominant explanation of FDI over the past decade. Authors such as Dunning (1977), Rugman (1979, 1981) and Buckley and Casson (1998) have incorporated the internationalisation theory into the concept of MNE. Internationalisation theory according to these authors is mainly concerned with issues of why multinational enterprises (MNEs) locate in a country. Gary and Gary (1981) further assert that the ability to internalise ultimately drives a transnational approach. Focarelli and Pozzolo (2000), in their study of foreign banks in 28 OECD countries, find that bank sizes are measured by total assets and it is positively correlated with internationalisation. Chamberlin (1950) established that product differentiation creates an independent element of a monopoly in an industry. The competitive advantage of foreign banks over local banks is the all-embracing product differentiation in financial services. Sagari (1992) establishes that product differentiation can be either apparent or perceived. Apparent product differentiation is, in essence, differentiation that is visible and it is linked to the characteristics of quality of service. In his findings, Sagari (1992) raises at least two key issues (1) to categorise the quality of service; and (2) provide quality of service.

Walter (1985) argues that transnational financial institutions can undertake international transactions more efficiently than that of the host country’s competitor. Certain currencies are very important in international trade and non-price competition is considerable in the market for banking services. Walter (1985) points out that the advantage derived from transaction efficiency may be strong in countries characterised by poor financial practices involving slow decisions and transaction times, high error ratios, lack of clarity and heavy bureaucracy. Again, Walter (1985) explains that human capital is one of the most important inputs in the production of financial practices. He argues further that transnational banks are able to offer career opportunities to their employees. These employees with great experience would in turn offer a wonderful client experience in terms of product innovation and market information. Yannopoulos (1983) acknowledges perceived differentiation as an additional

source of significant competitive performance among banks regarding their ability to sell deposits and buy loans. The borrower perceives differentiation within the context that this is related to the probability of loan extensions and renewals according to their needs. The depositor perceives differentiation is tied with the political and default risks investors attach to deposits held in banks with different endowments. Boateng and Glaister (1999), counter argue that OLI advantages are important determinants of FDI, but it is only the location that can be influenced directly by the host government. The next section discusses the economic outlook of Ghana.

### **Economic Outlook of Ghana**

Before the adoption of the reform programme in the early 1980s, the major challenge that Ghana, like other sub-Saharan African countries faced was twofold: (i) the search for renewed economic growth and (ii) the translation of the economic growth into increased employment opportunities to ensure that the majority of Ghanaians will reap the benefits of growth (Fosu and Aryeetey, 2008). With these objectives in view, the Ghanaian government embarked on an Economic Recovery Programme in 1983, in an attempt to reverse several years of economic downturn. Starting in 1986, the second phase of reform saw the ERP being supplemented with the Structural Adjustment Programme (SAP), geared toward correcting a number of structural imbalances in order to engender sustained healthy economic growth (Fosu and Aryeetey, 2008). This involved a shift from a controlled economic policy regime to a market-oriented and private sector-led economy. The overriding objective of the SAP/ERP was to reduce Ghana's debts and to improve its trading position in the global economy. Since 1983, the Ghanaian economy has continued to evolve favourably with a GDP growth of around 4 percent in the 1990s (Debrah, 2002). The economic reform programme continued to yield positive results with improvements in key macroeconomic variables. Real GDP growth rates recorded positive values during 1990-2000, which was attributable to external factors such as good weather conditions after the drought, and good cocoa prices in the world market (ISSER, 2005). Since 2001, there has been an appreciable upswing in economic growth and real GDP growth rate reached 5.9 percent in 2005 (IMF Public Information Notice: IMF Concludes 2006, Article IV Consultation with Ghana).

Ghana experienced recorded GDP growth rates of 6.2 percent in 2006 and 6.3 percent in 2007 (Bank of Ghana, 2008). The positive upward trend of GDP growth rates in the economy from 2000 to 2007 was largely driven by significant growth experienced in the agricultural sector, which increased its contribution to GDP to nearly 38% in 2006. This was made possible by productivity increases, favourable international cocoa prices and buoyant services sector (Bank of Ghana, 2008). Despite the positive upward trend in the growth of real GDP, some of the measures such as employment rate generally associated with SAPs failed to have the desired impact on the sectors of the economy. In particular, the economy has been unable to generate productive formal-sector jobs and to keep pace with growth of the labour force. In fact, wage employment has declined relative to total labour (Leigh 2004). Leigh (2004) further iterates "one of the consequences of this has been to keep successive governments under pressure to maintain a large public service." Thus while public-sector employment has declined sharply as a direct result of SAPs, it is the private sector and for that matter, mainly the informal sector that absorbed the retrenched workers and offers employment opportunities for new entrants to the labour market (Debrah and Mmieh, 2009).

### **The Financial Services Market Reforms**

An important component of the ERP/SAP was the Financial Sector Adjustment Program (FINSAP) that was implemented in 1996 to create an investment climate that gives foreign investors the confidence to invest in the country. For example, the Ghana Investment Promotion Council (GIPC) Act 478 provides some guarantees to all enterprises and these include free transferability through any authorised dealer bank in freely convertible currency of dividends or net profits attributable to the investment; payments in respect of loan servicing where a foreign loan has been obtained, remittance of proceeds (net of all taxes) and other obligations. Also, protected under the Act are all proceeds accruing from the sale or liquidation of the enterprise or any interest attributable to the investment (GIPC, 2002). The introduction of FINSAP sought among others to: (i) reform the banking sector to

ensure the appreciation of the value of the customer and provide customer satisfaction; (ii) overhaul the regulatory framework and improve bank supervision; (iii) develop the money and capital markets, (iv) increase exports and sustain GDP growth of at least 5% per annum; (v) control inflation through appropriate fiscal and monetary policies; and (vi) liberalize the Foreign Exchange Market (FEM).

The period 1992-1996, saw a resurgence of economic instability in the financial sector. However, due to FINSAP, the financial system has evolved appreciably. The distressed banks have been restructured and by the end of 2008, the number of major banks had increased from 5 to 27 ([www.Ghanaweb.com](http://www.Ghanaweb.com), 2009). In addition, there are presently about 125 rural/community banks that are complementing the efforts of the 25 major banks in providing finance to small and medium-sized enterprises (SMEs, Bank of Ghana, 2007). As part of the FINSAP efforts to improve the economy, the Ghanaian government sought to promote private sector initiatives and in July 1989, the Ghana Stock Exchange (GSE) was established with trading on its floor commencing in November 1990. To date, 37 companies are listed on the GSE (African Investor, 2010). The opening of the exchange market to non-resident Ghanaians and foreigners in June 1993 was a big boost to the development of the exchange market. Exchange control permission was also given to foreigners and non-resident Ghanaians to invest through the GSE without prior approval. This attracted a number of top-rated foreign institutional buyers. The Government of Ghana also used GSE to privatise some state owned enterprises and banks. Notably amongst them were the Government's off-loading of its shares in Ashanti Goldfields Company Ltd (one of the largest mining companies in the world) and Ghana Commercial Bank one of the largest Banks in SSA (Ghana Stock Exchange, 2007).

Since its inception, the GSE performance has varied considerably. In 1993, the GSE was the 6<sup>th</sup> best index performing emerging stock market with a capital appreciation of 116 percent (Mbendi Profile: Information for Africa, 2000; and Bank of Ghana, 2005). In 1994, the GSE was the best index performing stock market among all the emerging markets, gaining 124.3 percent in all its index level. In 1995, the index growth was a disappointing 6.3 percent, partly because of high inflation and interest rates. In 1997, the index growth was 42 percent and at the end of 1998 it was 58 percent (Mbendi Profile: Information for Africa, 2000; Bank of Ghana, 2005). In 2004, the GSE was hailed as the best emerging stock market and its market capitalisation rose from c12,617 billion at the end of 2003 to c97,614 billion in 2004 as a result of the merger between AngloGold and Ashanti Goldfields. The GSE All-Share Index passed its all time high of 3,553.42, and reached 7,316.31 in August 2004. It subsequently closed the year at 7,045 with a gain of 91.33 percent (Mbendi Profile: Information for Africa, 2000; Bank of Ghana, 2005). The simultaneous listing of Ashanti Goldfields Co. Ltd (AGC) on the GSE and on the London Stock Exchange and the subsequent listing on New York, Toronto and Zimbabwe Stock Exchanges have given the GSE a whole new international dimension and stature (Ghana Stock Exchange, 2007).

Under FINSAP, the Foreign Exchange Market (FEM) was also liberalised with licensing of forex bureaux to stimulate the increasing flow of foreign exchange into Ghana by buying and selling foreign currency just as the banks. In 2003, Ghana amended the exchange rate policy by allowing the market to largely determine the price of foreign exchange. The strength of the *cedi* in relation to major currencies such as the dollar, euro and the pound sterling broadly reflected the strength of those currencies on the international market. Since most Ghanaian traders buy more of these currencies for their imports this resulted in higher depreciation of the *cedi* against the currencies mentioned above. The annual average exchange rate showed a cumulative depreciation of 9.3 percent in 2003 against the dollar, compared to the average rate of 8.3 percent in 2002 in the inter-bank market, while the rate of depreciation in the forex bureaux market moved from 11.1 percent in 2002 to 9.3 percent in 2003 (Mbendi Profile: Information for Africa, 2000; Bank of Ghana, 2005). Although there is a discrepancy between the inter-bank and the average forex bureaux rate due to increased speculation of forward looking agents in the market, the two rates invariably move together with the forex rate always being higher than the inter-bank rate (Bank of Ghana, 2003). The domestic foreign exchange market continues to grow in size and depth and remains generally sound and liquid in the context of stability of the local currency the *cedi* vis-à-vis the major currencies. The next section of this paper reviews the recent literature on exports.

## **The Ghanaian Banking Sector**

Amidst the global recession and domestic growth slowdown since 2008, the Ghanaian Banking sector has witnessed a phenomenal growth in FDI inflows. Bob-Milliar, *et al* (2007) argue that the banking sector in Ghana has emerged from a severe financial and reputational damage resulting from economic recession and government debt during 1980's and 1990's, to a more enviable and a rapid growing sector in the economy. The recent growth of the banking sector is primarily due to the deregulation of the banking sector, economic and political stability, and the government's private sector initiatives mentioned above, making the sector not only a business-friendly environment to attract significant foreign capital injection but also the "financial hub" of the Sub-Saharan region. The Bank of Ghana has endorsed the enforcement of statutory requirements, more stringent supervision and the licensing of capital requirements. The bank of Ghana has licensed 27 banks; these include a range of non-financial institutions, in addition, there are presently about 125 rural/community banks complementing the efforts of the major banks in providing finance to small and medium-sized enterprises (Mmieh and Owusu-Frimpong, 2009). A quite remarkable feature of the sector is the level of ownership by the private sector, directly or through the capital market when compared with the level of state ownership seen in other financial sectors in other African countries (Bob-Milliar *et al*, 2007).

The overall banking sector according to BMI (2009) is relatively sound, albeit subject to greater risk than previous years. This milieu signifies the continuation of the following trends with the expectation that the population of Ghana will increase. It is also envisaged that more bank branches will be opened to formally accommodate the proportion of the unbanked population. In March 2009, there were 642 branches, up by 32.1% y-o-y from 486 in the previous 12 months (BMI 2009). Although there are several leading foreign banks in Ghana such as Barclays Bank Ghana Limited, Standard Chartered Bank Limited and Ecobank Ghana Limited, it is envisaged that more overseas players will seek to gain market share in Ghana, given the nations strong economic growth trajectory. According to BMI (2009), more Nigerian banks, may be keen to enter the Ghanaian market, given its geographical proximity and shared language. The next section discusses the research methods and data sources.

## **Research Method and Data Sources**

The Data were obtained from banks in Ghana via questionnaire using simple random sampling. It was particularly difficult to obtain a complete directory of information about foreign banks in Ghana. However, without the assistance of Bank of Ghana (BoG) and most particularly the banks involved in data collection, it would have been impossible to obtain the required data for this study. Of the 27 licensed banks by BoG, 14 of the banks have majority ownership as foreign banks. The remaining 13 have majority ownership as local banks. This study chose 14 banks to participate in the survey. Out of the 14 banks, 11 banks positively participated giving us 79 percent response rate. A structured questionnaire containing 5 major factors and sub factors of both the relative importance and attractiveness of the determinants of location factors were administered. The sample size of the survey is 225 which comprises of senior executives (MD/Board members) and senior management involved both directly and indirectly in the decision making process in the banks in Ghana.

The comparative element of the study across different groups of banks enables the research to provide greater insight into the behavioural differences between domestic and foreign banks. While many authors focused on empirical examination of foreign bank entry effects only a few researchers centred their attention on qualitative assessment and scarcely has any researcher attempted to combine both methods. Using both qualitative and quantitative research methodology enables triangulation of the results and further provides substantial evidence of the findings. The character of the research allows for enough flexibility so that rigorous empirical analysis will provide explanatory results between groups' differences. To analyse the data, the Statistical Package for Social Science (SPSS) version 17 was used. The empirical evidence is discussed in the next section.

## **Discussion of the Empirical Evidence**

Appendix 1 summaries the importance of the major location factors, including the mean score and standard deviation in parenthesis for each of the major factors and sub factors for the relative importance of foreign banks making decisions to locate in Ghana. The average response rate for the major factors are as follows (1 = least important; 2 = unimportant; 3 = neutral; 4 = important and 5 = very important). The macroeconomic policy factors have arithmetic mean score of 4.64 (0.26), and they are considered very important followed by Political and legal factors which have a mean score of 4.47 (0.29). Infrastructure factors have a mean score of 4.05 (0.67) and they are also considered important. Under market factors, the sub-factors such as market growth in the host market, the level of competition in the host market with their mean scores of 4.27 (0.44) and 3.55 (1.23) respectively are ranked as significantly important whereas sub-factors such as market familiarity in the host market and large size of the host market with their mean scores of 2.12 (1.14) and 2.05 (0.87) respectively are considered as unimportant location decision factors. Similarly, labour factors have been found to be unimportant since they have a mean score of 2.24 (0.62). Figure 1 below gives a pictorial view of the relative importance of the location factors based on the decision to locate in Ghana.

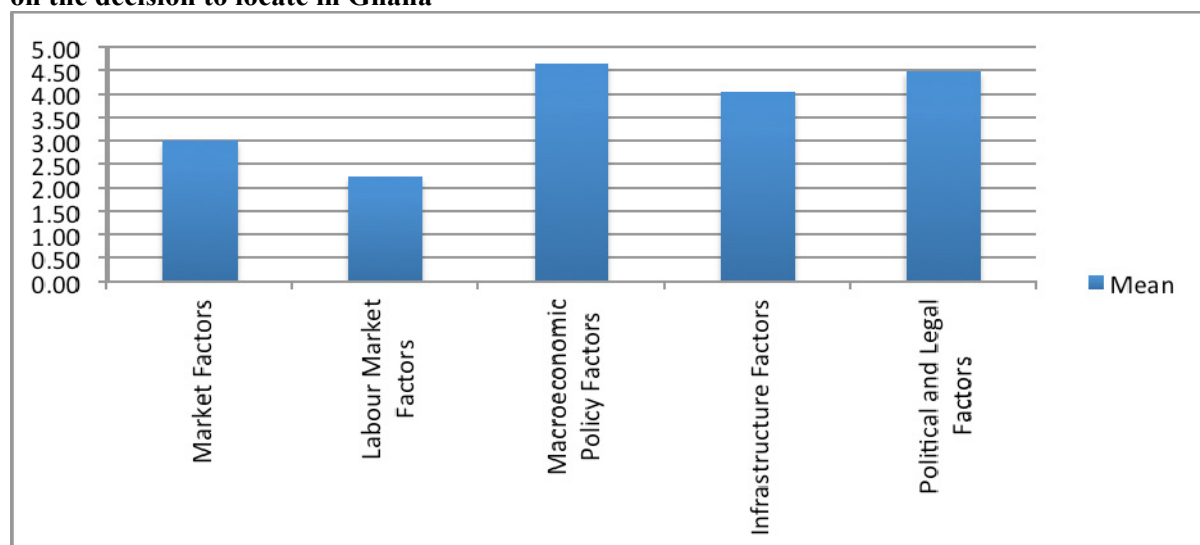
Appendix 1

The relative Importance of Location Factors based the decision to locate your bank in Ghana															
Major and sub-Location Factors	Response Scale											Scale Descriptive			
	Least Important		Unimportant		Neutral		Important		Very Important		No Response		Mean	Mean S.D.	n
	1*	2*	3*	4*	5*								Ranking		
<b>Macroeconomic Policy</b>											<b>4.64</b>	<b>1</b>	<b>0.26</b>	<b>225</b>	
Economic stability in the host market	0	0.0%	0	0.0%	0	0.0%	59	26.2%	164	72.9%	2	0.9%	4.74	0.44	225
Economic growth in the host market	0	0.0%	0	0.0%	0	0.4%	61	27.1%	162	72.0%	2	0.9%	4.73	0.45	225
Exchange rate in the host market	0	0.0%	0	0.0%	10	4.4%	102	45.3%	110	48.9%	3	1.3%	4.45	0.58	225
<b>Political and Legal Framework</b>											<b>4.47</b>	<b>2</b>	<b>0.29</b>	<b>225</b>	
Political stability in the host market	0	0.0%	0	0.0%	0	0.0%	76	33.8%	146	64.9%	3	1.3%	4.66	0.48	225
International trade agreement in the host market	0	0.0%	0	0.0%	1	0.4%	92	40.9%	129	57.3%	3	1.3%	4.58	0.50	225
Government tax incentive to foreign banks	0	0.0%	3	1.3%	4	1.8%	123	54.7%	95	41.8%	0	0.0%	4.38	0.59	225
Diplomatic ties in the host market	0	0.0%	0	0.0%	15	6.7%	125	55.6%	84	37.3%	1	0.4%	4.31	0.59	225
Legal and regulatory system in the host market	0	0.0%	0	0.0%	1	0.0%	131	58.2%	93	41.3%	0	0.0%	4.41	0.50	225
<b>Infrastructure</b>											<b>4.05</b>	<b>3</b>	<b>0.67</b>	<b>225</b>	
Level of infrastructure in the host market	0	0.0%	0	0.0%	1	0.4%	128	56.9%	93	41.3%	3	1.3%	4.41	0.53	225
Geographical proximity in the host market	12	5.3%	40	17.8%	25	11.1%	74	32.9%	71	31.6%	3	1.3%	3.68	1.24	225
<b>Market Factors</b>											<b>2.99</b>	<b>4</b>	<b>0.53</b>	<b>225</b>	
Large size of the host market	51	22.7%	134	59.6%	24	10.7%	10	4.4%	6	2.7%	0	0.0%	2.05	0.87	225
Market growth in the host market	0	0.0%	0	0.0%	0	0.0%	164	72.9%	60	26.8%	1	0.4%	4.27	0.44	225
Level of competition in the host market	6	2.7%	59	26.2%	32	14.2%	62	27.6%	66	29.3%	0	0.0%	3.55	1.23	225
Market familiarity in the host market	75	33.3%	96	42.7%	19	8.4%	23	10.2%	12	5.3%	0	0.0%	2.12	1.14	225
<b>Labour Market</b>											<b>2.24</b>	<b>5</b>	<b>0.62</b>	<b>225</b>	
Labour cost in the host market	64	28.4%	81	36.0%	66	29.3%	13	5.8%	1	0.4%	0	0.0%	2.14	0.91	225
Return on investment in the host market	75	33.3%	78	34.7%	45	20.0%	18	8.0%	9	4.0%	0	0.0%	2.15	1.09	225
Availability of well qualified workforce in the host market	53	23.6%	58	25.8%	87	38.7%	13	5.8%	14	6.2%	0	0.0%	2.45	1.10	225

\* Likert scale



**Fig. 1: A histogram showing the mean scores of the relative importance of location factors based on the decision to locate in Ghana**



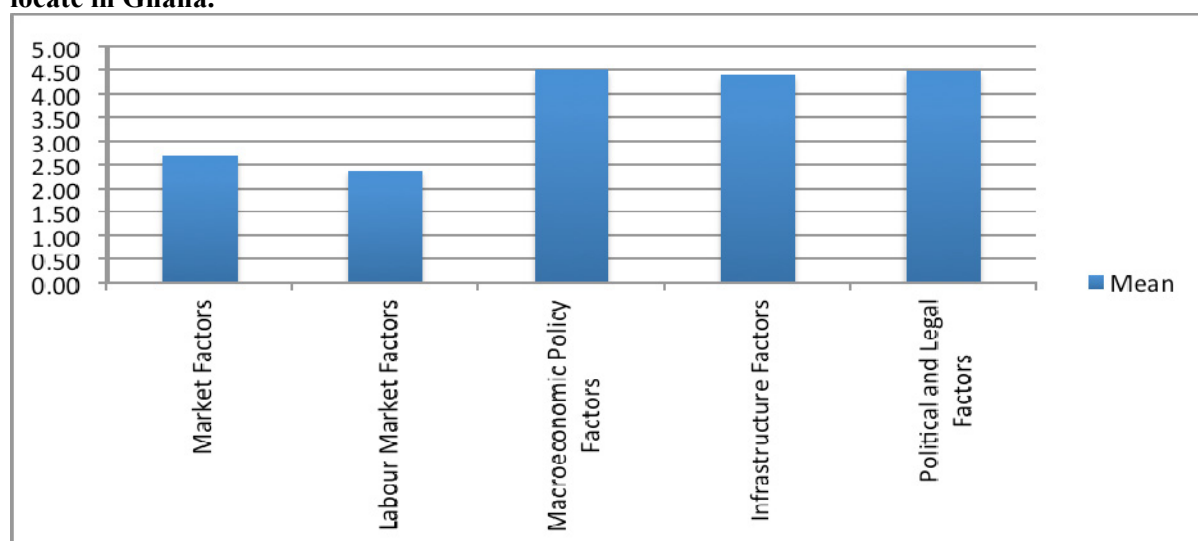
Appendix 2 summarizes the importance of the major location factors, including the mean score and standard deviation for each of the major factors and sub factors for the relative importance of the attractiveness of MNCs to locate in Ghana. The macroeconomic policy factors have arithmetic mean score of 4.52, and standard variation (s.d.) of 0.29 and they are rated as very important followed by Political and legal factors which are also considered very important with mean score of 4.49, and s.d. 0.20. Infrastructure factors have a mean of 4.42 and s.d. of 0.05 and they are also considered important. Market factors have a mean score of 2.70 and s.d. 0.34 and they are considered unimportant to impact foreign banks to locate in the country followed by labour market factors which have a mean score of 2.39 and a s.d. 0.58. Figure 2 below gives a pictorial view of the relative importance of the location factors based on the decision to locate in Ghana.

Appendix 2

The Relative Importance of the Attractiveness to Locate in Ghana																
Major and sub-Location Factors	Response Scale											Scale Descriptive				
	Least Important		Unimportant		Neutral		Important		Very Important		No Response		Mean	Mean	S.D.	n
	1*	2*	3*	4*	5*	6*	7*	8*	9*	10*	11*	12*	Ranking			
<b>Macroeconomic Policy</b>												<b>4.52</b>	<b>1</b>			
Economic stability in the host market	0	0.0%	0	0.0%	0	0.0%	72	32.0%	143	63.6%	10	4.4%	4.67	0.47	225	
Economic growth in the host market	0	0.0%	0	0.0%	0	0.0%	110	48.9%	105	46.7%	10	4.4%	4.49	0.50	225	
Exchange rate in the host market	0	0.0%	3	1.3%	1	0.4%	117	52.0%	94	41.8%	10	4.4%	4.40	0.58	225	
<b>Political and Legal Factors</b>												<b>4.49</b>	<b>2</b>	<b>0.20</b>	<b>225</b>	
Political stability in the host market	0	0.0%	0	0.0%	0	0.0%	54	24.0%	168	74.7%	3	1.3%	4.70	0.43	225	
International trade agreement in the host market	0	0.0%	0	0.0%	0	0.0%	88	39.1%	134	59.6%	3	1.3%	4.60	0.49	225	
Government tax incentive to foreign banks	0	0.0%	0	0.0%	6	2.7%	157	69.8%	58	25.8%	4	1.8%	4.24	0.48	225	
Diplomatic ties in the host market	0	0.0%	0	0.0%	0	0.0%	146	64.9%	76	33.8%	3	1.3%	4.34	0.48	225	
Legal and regulatory system in the host market	0	0.0%	0	0.0%	0	0.0%	111	49.3%	111	49.3%	3	1.3%	4.50	0.50	225	
<b>Infrastructure</b>												<b>4.42</b>	<b>3</b>	<b>0.50</b>	<b>225</b>	
Level of infrastructure in the host market	0	0.0%	10	4.4%	18	8.0%	115	51.1%	72	32.0%	10	4.4%	4.16	0.76	225	
Geographical proximity in the host market	4	1.8%	23	10.2%	138	61.3%	19	8.4%	18	8.0%	23	10.2%	3.12	0.80	225	
<b>Market Factors</b>												<b>2.70</b>	<b>4</b>	<b>0.34</b>	<b>225</b>	
Large size of the host market	56	24.9%	144	64.0%	20	8.9%	4	1.8%	1	0.4%	0	0.0%	1.89	0.86	225	
Market growth in the host market	0	0.0%	0	0.0%	10	4.4%	121	53.8%	94	41.8%	0	0.0%	4.37	1.10	225	
Level of competition in the host market	4	1.8%	95	42.2%	100	44.4%	18	8.0%	7	3.1%	1	0.4%	2.68	0.77	225	
Market familiarity in the host market	82	36.4%	102	45.3%	32	14.2%	7	3.1%	0	0.0%	2	0.0%	1.84	0.78	225	
<b>Labour Market</b>												<b>2.39</b>	<b>5</b>	<b>0.58</b>	<b>225</b>	
Labour cost in the host market	46	20.4%	123	54.7%	32	14.2%	17	7.6%	2	0.9%	5	2.2%	2.12	0.86	225	
Return on investment in the host market	22	9.8%	109	48.4%	40	17.8%	28	12.4%	18	8.0%	8	3.6%	2.59	1.10	225	
Availability of well qualified workforce in the host market	30	13.3%	120	53.3%	27	12.0%	24	10.7%	17	7.6%	7	3.1%	2.44	1.10	225	

\* Likert scale

**Fig. 2: A histogram showing the mean scores of the relative importance of the attractiveness to locate in Ghana.**



In comparing both the banks' decision to locate and the attractiveness of Ghana as a location, it is quite evident from the survey that the following major factors ranked in descending order are the most important factors; Macroeconomic policy factors, Political and Legal factors, Infrastructure factors, Market factors and finally Labour market factors. The sub-factors which cushion the major factors with mean scores more than 4 generally show the relative importance of the attractiveness of MNEs to locate in Ghana. All the major factors below mean score of 3 generally do not show the relative importance of the attractiveness of MNEs to locate in Ghana. For macroeconomic policy factors, the most common macroeconomic effect that has been well publicised in the literature and again evident in this survey is the stable economic environment. With regards to Political and Legal factors, the authors of this study show that both political and legal institutions influence cross-national business practices as banks expand around the world. For instance, the host country's legal system plays an important role in the operations of the banks. It is also evident that the credibility of Ghana's government political and legal policies is positively related to the attractiveness of foreign banks to locate in Ghana. For infrastructure factors, it is quite clear that infrastructure is an important factor in FDI location decision. With regards to market factors, the expansion apprehension into other markets to gain greater sales or market share has influenced banks to enter into large markets to overcome the maturity of home markets; this means that the market growth influences the FDI location decision, as banks endeavour to enter markets such as Ghana where they can grow. For labour market factors, Ghana with high unemployment levels has a larger labour force for potential investors such as banks to choose from. The high unemployment rate in the country gives an indication that the workforce is eager to take any job that comes their way and hence they are most likely to accept lower wage rates. The next section provides the conclusion, limitation, and avenues for future research.

## Conclusion

This study evaluated the financial sector liberalisation and FDI inflows in the banking sector and critically assessed the relative importance of FDI decision factors influencing Multinational banks to locate in the Ghanaian banking sector. This study reveals that macroeconomic policy factors are very important followed by Political and legal factors, market factors and infrastructure factors. Despite the increased globalisation in the provision of financial services, economists have found it difficult to present to policymakers with a compelling empirical evidence of the impact of foreign entry in Ghana. This stems largely from a lack of comparable data and the modest level of foreign entry that has occurred until recently. However, this study promises to channel a new orientation in the development of Ghanaian macroeconomic framework in both fiscal and monetary policy areas. Primarily, the study has dwelled on FDI as a source of revenue and a monetary tool for achieving

balance of trade Equilibrium. If Ghana focuses on the major ranking, as evidenced in tables 1 and 2 it would be beneficial.

Even though the research has identified some important findings of both the importance and the attractiveness of the location factors of FDI however, the authors of this research should have looked at other sectors of the economy of Ghana instead of heavily concentrating on FDI inflows to the banking industry. The research can only be used to explain the location factors importance and attractiveness for FDI in the banking sector and may not be representative of other sectors in Ghana. Therefore to enhance the robustness of this work and to validate it, it would be appropriate for future research to look at other industries to compare and contrast other sectors of the economy. Secondly, the statistical model applied in this research was quite restricted as it only uses descriptive statistics to measure the viability of the data set. To ensure the robustness of the empirical evidence, other conventional statistical packages could have been applied. Thirdly, the research has limited geographical focus as it focuses only on FDI location in Ghana. The generalisation of the results to other countries particularly the SSA region remains to be established.

Given that this research has not been covered extensively in the past, the results and conclusions of this study therefore constitute a significant platform for future work in this area. This gives the opportunity for scholars to further expand this work by examining the relative importance of the location factors in other sub-Saharan African countries.

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## **CAUSES OF INTER-REGIONAL FINANCIAL FDI INFLOWS INTO GHANA: NIGERIAN BANKS IN GHANA**

Kweku Adams, Y. A. Debrah and Dr. Frederick Mmieh

*The main aim of the paper is to examine the factors that influence the inflow of financial FDI into Ghana; understand foreign investors' perceptions of the role of institutional factors in facilitating financial FDI inflows. The extent to which the post-reform business environment has been successful in attracting financial FDI inflows into Ghana. An in-depth qualitative study was adopted for the research. Using 2 financial MNCs as case studies, the environmental factors which influenced their decision to choose Ghana as an investment destination are examined, as well as the institutional and regulatory factors that affect their current operations and future investment decisions.*

### **INTRODUCTION**

As globalisation of the marketplace continues, companies that conduct business only within their national borders will find it difficult to survive. One way, therefore, to cope with this problem is for companies to expand their operations beyond home country frontiers into other countries through foreign direct investments (FDI). In the early and mid-1980s, FDI inflows into developed countries divided almost equally between America and Europe. Over this period, the USA received 51% of total FDI inflows and Western Europe received 43%; the remaining 6% was shared among other economies (Dunning, 1998). Currently, the United Nations Conference on Trade and Development (UNCTAD, 2010) is claiming that developing and transition economies received more than 50% of the world's FDI and for the first time have outperformed developed economies. Moreover, FDI inflows into the developed world contracted by 6.9% (UNCTAD, 2010).

In a related development, PricewaterHouseCoopers (2011) also indicate that the E7 emerging economies (China, India, Brazil, Russia, Mexico, Indonesia and Turkey) are likely to overtake the G7 economies (USA, Japan, Germany, UK, France, Italy and Canada) before 2020 if the trend of FDI flows continues. In view of this trend, Sub-Saharan African countries (SSACs) seem to have lost much of its attractiveness regarding inward FDI. The paper begins with a brief discussion on the theoretical and conceptual issues surrounding FDI as well as FDI inflows into Ghana.

### **RESEARCH AIMS AND QUESTIONS**

The motivation for this study is the evident paucity of research on factors influencing financial FDI inflows into the region. In view of this, empirical evidence to guide policies to increase FDI inflows into Sub-Saharan Africa is long overdue. Publications concerning financial FDI concentrate on FDI in advanced countries such as the USA, Western Europe and China (Sun, Tong and Yu, 2002; Focarelli and Pozzolo, 2001 and 2005; Buch, 2000; Buch and DeLong, 2001 and 2004; Goldberg and Johnson, 1990). Moreover, most of the research results have been inconclusive on the role of financial sector reforms and other institutional factors in attracting financial FDI inflows (Borrmann, Busse and Neuhaus, 2006; Zeng, Tong and Qian, 2002). In addition, Asiedu (2006) and Zeng, et al., (2002) have intensified the call for more research by citing that what constitutes the drivers of FDI in the developing regions of Asia and Latin America do not necessarily match well with the case of Sub-Saharan Africa. As Zeng, et al. (2002) point out, a higher return on investment and better infrastructure have a somewhat positive impact on FDI to non-SSA countries, but have no significant impact on FDI to SSACs. Hence, understanding FDI flows to SSA requires an investigation into the supply-side as well as the demand-side determinants (push and pull factors) influencing FDI flows. Furthermore, research into perceptions that the financial MNCs hold about the institutional framework in Africa is very minimal.

- What are foreign investors' perceptions concerning the role of institutional factors in facilitating inflow of FDI to Ghana (i.e., private sector initiatives – legislation, access to information, taxation and incentives, and bureaucracy)?
- To what extent has Ghana's economic reforms and the post-reform business environment served as determinants in attracting FDI inflows into Ghana?
- What factors account for the attraction of FDI to the financial services sector in Ghana?

## LITERATURE REVIEW

The growth of foreign banking activities in emerging economies is not an isolated phenomenon. Rather, it is a part of recent increases in FDI flows towards developing countries. FDI increases have largely been as a result of economic reforms and the privatisation of several SOEs as part of private sector development initiatives to attract substantial FDI inflows in many economies in SSA (Debrah and Toroitich 2005:208). The rationale for reforms to attract FDI inflows is the belief that FDI brings sustainable development (Mbaku, 1999). As a result, SSACs have embarked on several economic reform programmes (ERP) dating from the 1980s. Debrah and Toroitich (2005) observe that the major aim of the shift towards economic reforms and private sector initiatives is to attract FDI inflows and MNCs. This observation is confirmed by Aryeetey, *et al.* (2000), Agosin and French-Davis (1993) and the World Bank (1993).

The degree of international competitiveness is seen as having an impact on the volume of FDI as MNCs are constantly diversifying their activities to increase market share. This is classified by Knickerbocker (1973) as micro-economic force which causes MNCs to seek ways of maximising revenue by diversifying their activities, minimising costs and achieving efficiency through economies of scale. In view of the Ansoff Matrix (1957), the diversifying of activities into different markets has become a major strategic shift for all MNCs. This trend has, to some extent, caused an increase in the flow of FDI globally. The increasing trend, however, does not mean that it is easy to attract FDI inflows (Hill, 2007).

In an attempt to understand the reasons for *general* or manufacturing FDI flows, UNCTAD (1998) combines Dunning's (1993) OLI framework with host country factors to try and create a new concept by asserting that economic factors are the main reasons for FDI. These economic factors could be classified as *Market-seeking*, *Resource-seeking* and *Efficiency-seeking*. The market-seeking factors include market size and growth, access to regional and global markets, country-specific consumer preferences and the structure of the market. The resource-seeking factors comprised of the availability of raw materials, low labour costs, technology and infrastructure. In their most current research, Ezeoha and Cattaneo (2011) indicate that recent FDI trends show that Africa's share of financial FDI inflows is still relatively minimal. Besides, inflows still remain focused on resource seeking FDI due to its abundant natural resources. The efficiency-seeking factors consist of cost of inputs and regional integration. On the efficiency side, MNCs expand abroad in order to utilise resources to maintain or improve efficiency (UNCTAD, 1998). Since the advancement of this UNCTAD theoretical framework, empirical studies on the determinants of FDI across the developed world have been remodelled to include macro-economic factors, institutional factors and financial development factors (Kinoshita and Campos, 2004).

In the past two decades, however, the sector composition of FDI has shifted away from extractive industries and manufacturing (*general* FDI) towards the services sector (Hill, 2007). In addition, UNCTAD (2004) mentions that outward FDI from the Triad countries (USA, EU and Japan) in service industries was 47% in 1990, and by 2003, this figure had increased to 67%. In fact, Hill (2007) indicates that the composition of service sector FDI is largely concentrated in the financial services. Furthermore, Goldberg (2004) argues that financial FDI remains the largest source of external finance for many developing countries. It is anticipated that financial sector FDI will continue to grow as globalisation contributes to the free movement of financial resources across continents. But as more emerging economies enter into the sector through financial sector

liberalisation and deregulation, attracting financial FDI will become more competitive. The position of countries in the SSA in the competitive landscape for financial FDI remains unidentified.

## **RESEARCH METHOD AND DATA SOURCES**

The study adopted a qualitative approach because Eisenhardt and Graebner (2007) and Yin (2003) argue that when there is inadequate knowledge about a phenomenon, it is considered the most suitable method of data collection. In this regard, the researcher adopted the case study method to examine the factors which influenced financial MNCs in their decisions to choose Ghana as an investment destination and to assess which factors affect their current operations. The study employed interviews to understand how infrastructure, degree of political interference, competition and other institutional factors affect their activities. Eisenhardt and Graebner (2007); Yin (2003) and Saunders and Thornhill, (2007) further argue that when little is known about a phenomenon, adopting case studies will enable cross-case and content analysis. Moreover, it will help explain how the actors react to their environment. To this end, 2 case financial MNCs were selected to study how each of them assessed the regulatory requirements in the financial sector following the reforms, business facilitation systems and other FDI incentives provided by the government to attract financial FDI.

The second aspect of the data collection focused on the key stakeholders within the financial sector whose activities and policies, to some extent, influence or affect financial FDI inflows. Hence, regulatory bodies, government departments and economic policy analysts responsible for financial sector development were interviewed to gain understanding of the external environment. These interviews primarily focused on the regulators of the financial sector (BOG), government institutions in charge of policy formulation (MOFEP, MOTI), and government institutions in charge of policy implementation (Ghana Stock Exchange, NIC, GIPC, PEF, ARP and IDEG). On the other hand, industry specialist and non-governmental organisations were included in the frame to gain insight into both sides of the coin whereby understanding is gained about how MNCs perceive the institutional systems as much as how regulatory bodies perceive the MNCs.

## **THE CASE STUDIES: FINANCIAL MNC D**

Among the firms used for this study, Firm D has a history that illustrates how financial FDI can transform an industry and introduce a new quality level of service while changing the face of competition in the banking industry in Ghana. Firm D, which was established in the 1990s, is also from a neighbouring West African country. It became a public limited company in the mid-2000s and had an initial public offering on its home country's stock exchange in the mid-2000s. As of 2007, it is the largest company in its home country and the rest of West Africa with total assets of US\$21 billion. In addition to numerous branches in its home country, the bank has branches in Ghana, Gambia, Sierra Leone, South Africa and the UK. In Ghana, Firm D was incorporated in the mid-2000s (under the Ghana Banking Act 2004) as a private limited company and commenced universal banking operations in the same period. Firm D has won several awards including *Bank of the Year* within its first year of operations (*Financial Times*, London); *African Bank of the Year* in late 2000s (*African Investor*); *Best Bank* in its home country in 2008 (*Euromoney*); and *Best Global Bank* in 2008 (*African Investor*). In an industry with an average of non-performing loans ratio of 14.9%, Firm D had only 6.3% in 2009.

Currently, financial MNC D operates in 22 branches and agencies in Ghana and has an objective of making banking easier and better than anything customers have so far experienced. Moreover, financial MNC D uses cutting-edge ICT platforms, which sets it apart from other financial MNCs currently operating in Ghana. The firm has employed and developed aggressive staff who are devoted to the development of systems and products which are aimed at satisfying customers' and stakeholders' requirements. Within just over four years since entering Ghana, financial MNC D has improved its operating capacity, size and market share. Firm D has played a major role in the transformation of the banking industry into an intensely competitive, customer-orientated, more efficient and technologically inclined industry.



Prior to commencing their operations in Ghana, relationship banking was novel, e-banking was restricted to ATMs, banking was limited to a few hours in the day and weekend banking was almost non-existent. In view of these initiatives, it can be argued that Firm D has to some extent helped redefine standards in the financial services sector in Ghana through the introduction of mobile banking, electronic payment systems, and visa payment systems as well as many other products and programmes that provide customers with greater speed, accuracy and options. In collaboration with a number of auto companies, Firm D provides finance to its customers for the purchase of automobiles; a product which was available in Ghana's financial services sector but difficult for customers to attain. In spite of all this, Firm D still lacks specialist banking staff and stakeholders are sometimes hesitant to commit to undertaking larger investments due to a certain degree of political interference during and after the 2008 elections in Ghana.

### **FINANCIAL MNC E**

Financial MNC E is one of Africa's largest banking groups with operations across the continent of Africa and other parts of the world. Firm E was established several years ago in its home country. Firm E became the first foreign bank to open a branch in a mining town in the southern part of Africa to provide banking and other financial services to the businesses in the area. Firm E was subsequently listed on the stock exchange in its home country in the early 1970s and in the late 1980s. Besides this, Firm E divested their operations by selling almost 40% of its shares to existing shareholders to increase its market capitalisation in the 1990s. A year after that, Firm E began to establish links with several countries within Sub-Saharan Africa. Financial MNC E appears to be committed to undertaking financial investments in developing countries. Currently, financial MNC E operates in 17 Sub-Saharan African nations and has a presence in several emerging economies including Russia, Brazil, Argentina and Turkey.

Recently, financial MNC E has acquired operations of a major financial institution in the UK. In addition, financial MNC E acquired a public sector financial institution in Ghana to increase its asset base. The acquired financial institution made losses when it was run as a wholly domestic bank. This signifies the role that financial MNCs can play in transforming state-owned financial institutions (that are financial loss-makers) into profitable ventures. It could be argued that the acquisition of this bank is supporting the effective delivery of financial services to businesses and individuals in Ghana.

### **ANALYSIS: FACTORS CONTRIBUTING TO THE INFLOWS INTO GHANA**

The first aspect of the questionnaire was designed to obtain information about how MNCs perceive the Ghanaian institutional framework (which was identified at the introduction of the thesis as one of the main factors affecting FDI inflows into Ghana). It was a good method of assessing the outcomes of Ghana's reforms on the financial services sector and the current perception of the international finance community. As explained in the theoretical model which was adopted to drive this study, these factors are classified as pull factors. This is because many studies argue that financial FDIs are highly susceptible to fair and consistent institutional frameworks and environments where commercial laws protect such investments (Herbst, 1993; Aryeetey and Harrigan, 2000; Killick, 2000; Ford, 2004).

### **PERCEPTION OF INSTITUTIONAL FRAMEWORK**

The most important factor that influences the choice of Ghana as an investment destination is the macro-economic and political environment and the relatively supportive institutional framework in the financial services sector. This result is consistent with Ahlquist (2006), Osei, Aryeetey, *et al.* (2008), Mmieh and Owusu-Frimpong (2004) and Debrah and Ofori (2005) who found that FDI inflows have a tendency to increase under more secure democratic governments. Most of the respondents supported the view that Ghana has a good democratic system and what makes it stronger is the vibrant media that supports the process of democracy. As a result, there seems to be a certain

degree of trust for Ghanaian businesses worldwide. This is particularly the case for at least 80% of the firms interviewed. These factors are also supported by the size of the potential market at the regional level. Most banks see their entry into Ghana as a stepping stone to enter into the sub-region to conduct business and the potential to grow is seen as the next most important factor. In fact, a manager at the Operations department of Firm D indicated:

*Ghana is a good place to do business in terms of its stability and fairly consistent political and regulatory environment but the second major reason why we chose Ghana as an investment destination is to be able to easily access other regional markets; operating a business from Ghana is strategic due to its closeness to key business centres in the sub-region.*

As a high ranking Official at the Treasury department of Firm D also noted:

*We wanted to build a regional bank, and we needed to grow in order to meet stakeholders' profitability objectives and Ghana is one of the economies doing well in the sub-region too. Financially and culturally, the home country of our bank and Ghana share similar characteristics and the Ghanaian business environment is also friendly with the same language being spoken.*

In the same vein, a director at the Trading department at Firm E noted:

*Our bank has seen a lot of follow-the-client because it is a trusted bank around the globe. When businesses and people move/relocate their activities they always mention their links with our bank. Ghana may not necessarily be the main target market for many foreign banks, but as a stepping stone to enter into other markets in the SSACs and we have many examples of businesses that have come to stay in Ghana and other countries in the region because they are from the bank's country of origin. And one example is that many oil companies are moving from Nigeria to Ghana because of the cheap cost of transport from Ghana to Nigeria and the positive perception of the Ghanaian economic landscape.*

These comments indicate that the absolute size of the Ghanaian market is not the major factor but the potential for growth and the opportunity to launch their operations into other countries in Africa is. Respondents indicated that the comparatively low trade barriers in Ghana provide an attraction for financial FDI inflows into Ghana. In this vein, the institutional system needs frequent fine-tuning to adapt to the needs of the country. In the case of institutional factors, foreign banks needed a protection of their investment, the rule of law and the establishment of a commercial court that is aimed at protecting their future investments. In addition to this, trade regulations, exchange controls, the existence of a long-term development strategy, labour and social security regulations were identified as especially important.

The protection of investment is extremely important for firms with a higher degree of foreign ownership and future investment possibilities depending on their perception of the institutional framework. Currently, investment laws in Ghana allow all foreign-owned businesses to repatriate their profits to their home country; something which was not available during the 1990s. The literature also shows that the regulatory environment normally influences bank FDI location choice. Goldberg and Grosse (1994) indicate that foreign financial MNCs are more likely to establish themselves in states with fewer trade restrictions on foreign bank activities. As a senior Economist of Firm D noted:

*The world has seen that gradually we are pushing towards market reforms (the language that the international financial institutions understand better). Also they have seen that Ghana is pushing for an institutional framework that will protect their capital and also that Ghana has the institutions that will enforce property rights. Therefore, I can say that we have had significant improvement but, trust me there is more to be done. I can't say we have gotten to 'Jerusalem' yet.*

Furthermore, most of the foreign banks interviewed indicated that currently their investment in Ghana is yielding between 10%-39% (ROI) and this may be the reason why several foreign banks have plans to increase their future investments. Moreover, investment incentives are also regarded as an important reason why they entered Ghana. The Ghana government provides incentives to banks to expand regionally within Ghana and support the growth and financing of the export sector. This study found that the majority of banks (about 80%) plan to increase their investment over the next three to five years. The discovery of oil was cited as one of the major reasons why foreign banks in Ghana are increasing their future investments. Even though many of the foreign banks entered Ghana before oil was discovered in commercial quantities, the oil production and revenue will increase the size of Ghana's economy, and many financial MNCs see it as an opportunity to enter into oil financing. But the political strains involved in gaining contracts may affect the decisions of financial MNCs to provide finance.

Following on from the above, the opinion of financial MNCs on Ghana's legislative framework was somewhat affirmative; however, they maintain that there are lots of inefficiencies and loopholes regarding how the financial services sector is regulated. Ghana's financial services sector has been dramatically transformed from a state-controlled sector to a highly liberalised one since the 1980s. And although tremendous progress has been made in expanding the range of options for investors and borrowers, the sector is severely constrained in terms of its ability to meet the financing needs of a growing private sector. This means that businesses wishing to raise capital have very limited options within the banking system that focuses on short-term finance due to their perception of risk. This implies that businesses are forced to finance capital expenditures with short-term facilities, creating a maturity mismatch and interest rate risk.

#### REGIONAL ECONOMIC INTEGRATION

Economic integration between regional markets within Sub-Saharan Africa and the reinforcement of the African Union is helping foreign banks to feel safe to commit their capital into other countries in the sub-region. As evidenced by the empirical study for this thesis, most foreign banks in Ghana feel that, due to similarities in culture, language and lifestyle, it is relatively easy to start up and internalise their activities. An explanation for this is that banks either follow their customers to overseas markets to provide an unparalleled banking service or firms follow their banks to overseas markets where trading opportunities thrive. Even though most financial MNCs indicated that this trend is occurring, winning the accounts of businesses from the home country is purely as a result of the foreign banks' ability to offer a quality service. In regard to this finding, an officer of the Strategy and Finance department in Firm C indicates:

*Currently, Ghana's economy seems to be growing faster than many other countries in the sub-region. And as we speak the same language and probably because we were colonised by the same colonial masters, we have a lot of things in common, and it made sense to do business in a place where you get things done quickly, where there are no barriers. In relative terms, we are more or less the same, we have similar cultural differences and there seem to be similarities in the way businesses run and operate in Nigeria compared to Ghana.*

A manager in Business Development department for Firm D also indicates:

*Many major foreign firms conduct their banking activities with the mainstream foreign banks like Stanchart and Barclays, most probably because it is a British entity and normally they do that with the hope of having their assets and investments protected. But, the way it is done in Africa is different. In Africa, most businesses are more concerned with quality service and if you are not performing, they take their money away. It works in most cases if your service is good. What drives customer retention in the banking industry in Africa is service. As long as we are capable of delivering quality service then we can certainly maintain their accounts.*

Similarly, a director of Firm E indicates:

*Well, if you look at the philosophy of the group, we want to send Africa to the rest of the world and bring the rest of the world to Africa and the current progress made by the African Union supports our business ideology. That's our slogan 'Moving Forward'. Our vision is to be the best in the emerging market, which is strategically on the African continent. So we focused on the four countries as our hub – these are the growth pillars of Africa: Ghana, Nigeria, Kenya and Angola. These are the emerging markets; oil giants that are going to drive the whole African continent. Ghana is one of the growth pillars in Africa so we were selected.*

In view of these findings, it is clear that Ghana needs a financial sector that is efficient in the mobilisation and allocation of funds, which is fully integrated with the global financial system and also supported by a sound regulatory system that promotes a high degree of investor confidence. This need is determined by the realisation that an effective financial sector will be a driver of economic development, achieved through higher levels of savings, investments, employment and tax revenues.

### HOME MARKET CONDITIONS

Financial MNCs indicated that the performance of stocks and bonds on the Nigerian Stock Exchange has been consistently declining. The global financial crisis has affected the financial sector in Nigeria deeply, coupled with mishaps in prudential regulations. All case firms from Nigeria cite stiff competition in the banking sector as having forced them to think of expanding their activities abroad to take advantage of opportunities in other markets. A director of Firm E explained that:

*We expanded into Gambia and Guinea and relaxed, thinking we were doing great, until there was a shake-up in the Nigerian banking system. There were so many banks in Nigeria with huge Non-Performing Assets (NPAs). The central bank took a solvency directive to curtail banking activities in Nigeria. This led to an increase in the minimum capital requirement (MRC) by the central bank which caused many banks without the capital base to merge. If the parent is suffering from systemic shocks then the children will do the same. So we thought of consolidating our efforts by entering into other countries with reasonable growth prospects in order to diversify our portfolio to absorb risks and expand.*

The increase in minimum capital requirement is as a result of increased non-performing assets in the industry and the central government aimed at streamlining the activities of the industry.) As a manager at the Strategy and Finance department of firm D also indicates:

*Due to the financial crisis in Nigeria, investor confidence was affected and as a result there were huge withdrawals and withholdings of portfolio investments. For instance, the federal government issued fourteen bonds between January and December 2006 but the yield curve of the bonds was severely affected by the financial crisis in the financial sector. So you see, many Nigerian banks were seeking prospects somewhere else; especially in the sub-region.*

Similarly, a senior officer at the Global Markets department of Firm D notes:

*The Nigerian financial services sector, even though not well integrated into the world financial market has been facing the effects of destabilisation. The Nigerian Stock Exchange has been shrinking in value; major international funds have been withdrawn and funds for the national industries are limited. This crisis has seen a lot of major Nigerian banks trying to expand their operations and raising capital abroad.*

These comments indicate that one of the factors that influenced the decision of financial MNCs to enter Ghana is the possibility for the formation of strategic alliances or joint ventures, mergers and

acquisitions. This is to improve long-term survival chances by enhancing their reach, acquiring resources and hedging against risks. These findings are consistent with Berger, *et al.* (2000) who indicated that an EU banking directive encouraged banks to find ways of consolidation both at the domestic and international level to maintain market position. All financial MNCs in Ghana seek size in order to position themselves more favourably. This is because they foresaw the likely increase in mergers and acquisitions during the financial crisis caused by an increase in minimum capital requirements in their home country.

## CONCLUSION

This paper has demonstrated the main determinants of financial FDI inflows into Ghana can be grouped into two main categories: pull (location-specific) factors and push (supply-side) factors which reflected the reasons why financial MNCs choose to invest abroad. The pull factors were divided into sub-categories including investors' perceptions of transformation in regulatory opportunity; reforms to institutional framework; political stability and processes; increased economic integration between home and host countries; information costs and the availability of human resource factors to support internalisation efforts. Given that West African economic integration has been gaining momentum in recent years, and that many of the countries in the sub-region that represent FDI inflows into Ghana share common language and other socio-cultural background (Sousa, 2004), the opportunity is clearly available for foreign banks seeking to enter into Ghana.

The push factors included conditions in the home market and profit opportunities. This aspect highlighted that the desire for financial MNCs to enter Ghana has been driven by institutional considerations (diversification and efficiency gains and conditions in the home market which could either be for the purpose of consolidation or market saturation in the home market of the MNC). It is clear from the empirical evidence that financial MNCs operating in Ghana have been influenced by the pull factors. The paper also demonstrated that even though Ghana's financial sector has not attracted much FDI (in terms of depth) partly because it represents a certain degree of risk, there are still high returns on capital employed. Moreover, future economic prospects and high profitability (Focarelli and Pozzolo, 2001) exist for financial MNCs due to the discovery of oil in Ghana.

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## **Foreign Direct Investment in Rwanda: The role of Institutions: where to from here?**

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*The paper provides a profile of foreign direct investment (FDI) in Rwanda and critically assesses the role of government institutions in attracting FDI in the country. The analysis shows that institutions in Rwanda have succeeded in kick-starting the FDI process with a series of positive measures. Presently, the government has ambitious plans of continuing with the process of attracting further investment with a view to create employment and raise income levels. We argue that, after a decade of continuous efforts, it may be time to pause and take a stock of issues surrounding FDI vis-à-vis economic development. We provide a 5-point framework that would be of assistance to policy makers in this review process.*

### **Introduction**

A small developing country, Rwanda is land locked in Eastern Central Africa. It shares borders with the Democratic Republic of Congo in the West, Uganda in the North, Burundi in the South and Tanzania in the East. It is classified among countries with a very high population density. It is also classified among the poorest countries in the World. Around 90 percent of the population works on agriculture which depends largely on climate conditions. It has a population of 10 million with an annual growth rate of 3%. GDP per capita stands at \$520 (2009). The declared objective of the govt. is to raise it to \$900 by 2020<sup>iii</sup>. It expects domestic and foreign investments to grow between 25 and 30 percent of GDP by 2012; economic growth is estimated to annually grow by 7%. To achieve this objective, the government is encouraging private and foreign direct investment (FDI) in its industrial and services sectors. FDI, which was negligible ten years ago has gradually increased but still has a long way to go. The purpose of this paper is to examine the role of institutions in attracting FDI and to offer policy advice. The paper assumes importance on several grounds. This is the first attempt of this nature that brings together the FDI facts and institutional efforts to attract FDI and states the policy advice in a coherent manner. The paper begins with a theoretical overview of explanations of FDI. This is followed by a statistical profile of FDI in the country in section III. In section IV and V we assess the role of institutional policies in attracting foreign investment in Rwanda. Section VI provides a summary of achievements of Rwandan institutions in attracting FDI. Section VII connects the theory with the realities of FDI. Conclusions and policy recommendations are provided in the final section.

### **A framework of theoretical explanations of FDI**

Theories of FDI explain a country's propensity and ability to investment. The FDI process, as undertaken by MNEs, has reached a fertile area in terms of research, with excellent summaries of research now available (see Rugman, 2009; Dunning & Lundan, 2010) and, as a result, the purpose of this section will be to provide an overview to serve as a backdrop for discussion in the remaining sections of the paper. We take the cut-off point with Hymer (1960), who postulated his explanation on investment occurring as a result of market imperfections and the MNE's possession of monopolistic

advantage. This initiated variations of foreign investment motives as an oligopolistic defence strategy (Knickerbocker, 1973) through the product lifecycle (Vernon, 1966), or otherwise owing to capital market imperfections (Aliber, 1971). The internationalisation model of FDI is an extension of the behavioural (Cyert & March, 1963) and growth (Penrose, 1959) theory of the firm, and posits the internationalisation of a firm through a stages approach. Johanson & Wiedersheim-Paul (1975) theorise an evolutionary and sequential build-up of foreign commitments over time. The stages of international expansion are illustrated by the dynamic establishment chain, where initial investments occur from physical and psychic proximity, thereby leading to a slow and gradual move towards deeper commitment and more diversified cross-border activities.

The main assumption of the theory is that knowledge can only be gained through lengthy 'learning by doing' experience in a location, providing the capacity to recognise risk and opportunity factors, which ultimately encourage future resource commitment (Eriksson *et al.*, 1997). In the final stage, the sophistication of local market knowledge over time reduces psychic distance, uncertainty and information costs, accordingly increasing the propensity to FDI. Alternatively, an entrepreneurial-based explanation elucidates that the decision to internationalise and the location chosen are considered to be a part—or as a consequence of—similar economic conditions to the host and the company's strategy, whereby internalisation spurs from entrepreneurial action (Luostarinen & Welch, 1988). Coviello & Munro (1997) theorise that the formation of network relationships and links between firms and industries influence the foreign market selection and the mode of entry. Each internationalisation conceptualisation is based on the concepts of market commitment and incremental attainment of market knowledge. Notably, the internalisation approach, as initiated by Coase (1937), explains the existence and growth of MNEs in terms of the costs and benefits from transactions and resource-allocation occurring through internal hierarchies relative to the market. The theory posits that the costs arising from resource allocation through the market via the price mechanism occur owing to transactional market failure, known as transaction costs. Transaction costs develop from information asymmetries, bargaining and administration techniques. Buckley & Casson (1976) have transformed internalisation into a full theory of international business and multinational activity by including dynamicity and industry level determinants into a previously country-specific and static conception. They assume that firms aim to maximise profits in an imperfect world market, thereby creating incentives to bypass costs through internal markets connected by common ownership. This explains why MNEs undertake FDI rather than simply exporting goods.

By applying the internalisation theory to the location choice of investment, an MNE may be motivated to locate activities where there is the potential to achieve increasing returns to scale on production, and also where knowledge-intensive locations exist for high-value activities. Therefore, the optimal investment location cannot be based on regional factor analysis, as explained by traditional location models; rather, knowledge of market failures in investment locations allows transaction costs to be evaluated, and therefore determines the location choice. An alternative approach from Zander & Kogut (1995) abandons the market failure approach, and instead proposes that accumulation and the transfer of tacit knowledge explains internalisation. Subsequently, Dunning (1993) introduced a holistic framework in his eclectic paradigm which seeks to explain the level and pattern of international production. He recognises the importance of structural and transaction cost imperfections in terms of ownership, location and internalisation advantages, and later categorised FDI motivations into market seeking, resource seeking, efficiency seeking and strategic asset seeking.

Moreover, Dunning (1998) further highlights that the initial emphasis in academic research on the firm-specific determinants is now complemented with renewed interest in the spatial dimensions of FDI, as location factors can ultimately affect the global competitiveness of firms, and thereby determine their chances of future survival. Markedly, theory states that the location decisions of MNEs are determined by the relative location advantages of particular countries for certain activities. Implicit in these formulations is the assumption that particular location advantages have the same value for all MNEs; however, the differences in the investment motives of individual MNEs means that they will place varying degrees of importance on location factors. For example, market size is often considered to be a major location advantage, enabling firms to benefit market share and scale

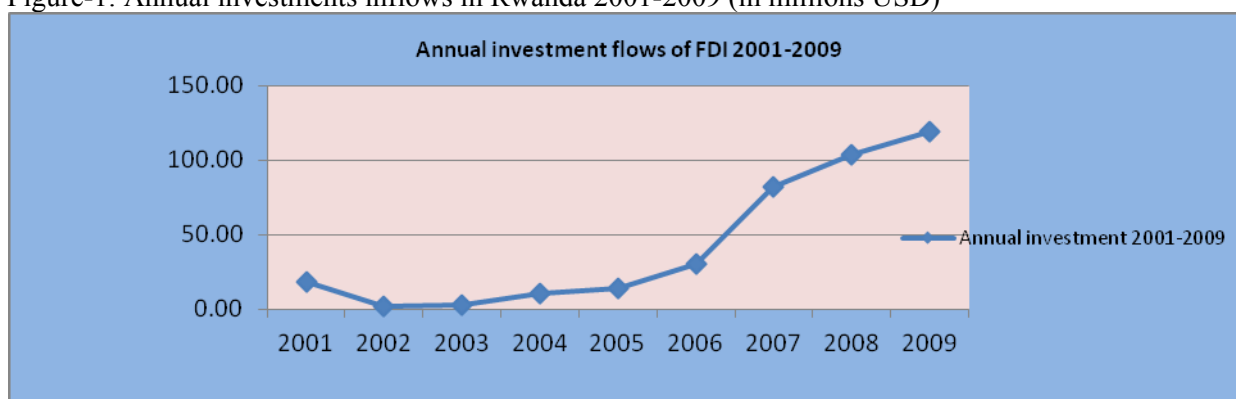


advantages (Dunning, 1993). Whilst this characteristic of markets is a highly valuable advantage for large firms, benefiting from standardisation, it may have limited value for small, specialised firms, the core competitive advantage of which lies in a highly specialised technology (Nachum & Wymbs, 2007). This clarifies that location factors should not be analysed in isolation from the MNE investment motive, thereby forming the basis of this research. It has been proposed that, in sub-Saharan Africa (SSA), transaction costs from location factors arise from imperfect information concerning the market, unstable bargaining, volatile political and economic systems, and a lack of transparency. It can be further argued that this has occurred because, in SSA, *markets emerged before institutions were created* (Meyer, 2001).

### A Profile and literature reference to FDI in Rwanda

Until recently, the only source of FDI data in Rwanda was balance of payments statistics which did not include any finer details on sector and country breakdown. The profile presented in this section is based on data from surveys conducted by the National Bank of Rwanda and covers the period 2001-2009. Because data prior to this period are not available in any usable form, the studies on the topic of FDI are almost non-existent. Reference to selected literature is provided in later sections. The flow of FDI for the time series data compiled is presented in figure-1. As is obvious 2005 was the take off period for the flow. Presently, the total accumulated stock of FDI in the country is estimated to be \$383 million.

Figure-1: Annual investments inflows in Rwanda 2001-2009 (in millions USD)



Tables 2 and 3 provide the country of origin and industry distribution of FDI in Rwanda.

Table-2: FDI by country of origin (million US Dollars)

No.	COUNTRY OF	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
1	Libya							50.00	47.48	23.55	<b>121.03</b>
2	Luxembourg							3.58	2.28	54	<b>59.86</b>
3	Kenya		0.01	0.28	0.66	0.72	1.24	24.16	16.12	5.19	<b>48.38</b>
4	South Africa	1.05	0.45	0.01	0.02	0.14	15.10	8.09	1.84	4.45	<b>31.16</b>
5	India	7.79	0.00	0.01	0.24	1.02	2.19			9.3	<b>20.55</b>
6	Belgium	3.81		0.02		6.93	3.29				<b>14.06</b>
7	Germany				0.05				8.81	2.87	<b>11.73</b>
8	Netherland								10.10		<b>10.10</b>
9	USA					0.78	3.56	2.70	3.00		<b>10.05</b>
10	Switzerland		0.54	0.52	0.20	0.10				7.93	<b>9.29</b>
11	(blank)			0.22	0.34	0.32	0.14		5.85	2.4	<b>9.28</b>
12	China				2.09	0.34	1.76	2.98		1.60	<b>8.78</b>
13	Tanzania		0.00		5.73	1.29	1.53				<b>8.55</b>
14	Nigeria								6.88		<b>6.88</b>
15	Netherlands	3.96	0.26		0.07				0.59		<b>4.87</b>
16	Cameroon									4.19	<b>4.19</b>
17	USA-Netherlands									3.04	<b>3.04</b>
18	Canada			0.47		0.20	0.25				<b>0.93</b>

19	U.K								0,40		<b>0,40</b>
20	Lebanon			0,39							<b>0,39</b>
21	Italy			0,31			0,00				<b>0,31</b>
22	Uganda				0,00	0,29					<b>0,29</b>
23	UAE							0,18			<b>0,18</b>
24	India-Tanzania			0,16							<b>0,16</b>
25	France								0,15		<b>0,15</b>
26	UK	1,88	0,25	0,21	1,47	2,11	1,48	-9,40			<b>-1,99</b>
	<b>Grand Total</b>	<b>18,49</b>	<b>1,51</b>	<b>2,59</b>	<b>10,86</b>	<b>14,25</b>	<b>30,57</b>	<b>82,28</b>	<b>103,35</b>	<b>118,67</b>	<b>382,58</b>

Source: National Bank of Rwanda

**Table-3: FDI by sector of activity**

	<b>Sector of activity</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total</b>
1	Information &				2,09	0,63	16,9	56,6	50,31	77,5	<b>204,11</b>
2	Manufacturing	11,74	0,26	1,25	6,37	3,62	4,77	17,6	1,32	3,10	<b>50,11</b>
3	Finance and insurance	1,88	0,25	0,21	1,52	2,24	4,22	-9,00	35,14	4,54	<b>40,99</b>
4	Mining and quarrying	1,05	0,45	0,31	0,07	0,14	0,14	2,40	1,69	19,9	<b>26,19</b>
5	Accommodation and food	3,81						4,48	10,50	5,80	<b>24,59</b>
6	Construction			0,02		6,93	2,97		0,18	3,35	<b>13,46</b>
7	Wholesale and retail trade			0,00	0,24	0,25		1,20	4,22	1,34	<b>7,24</b>
8	Construction		0,54	0,52	0,20	0,10		4,56			<b>5,92</b>
9	Electricity and gas		0,01	0,28	0,37	0,34	1,24			3,04	<b>5,29</b>
1	Human health and social							4,36			<b>4,36</b>
	Transportation and						0,32				<b>0,32</b>
	<b>Grand Total</b>	<b>18,49</b>	<b>1,51</b>	<b>2,59</b>	<b>10,86</b>	<b>14,2</b>	<b>30,5</b>	<b>82,2</b>	<b>103,35</b>	<b>118,</b>	<b>382,58</b>

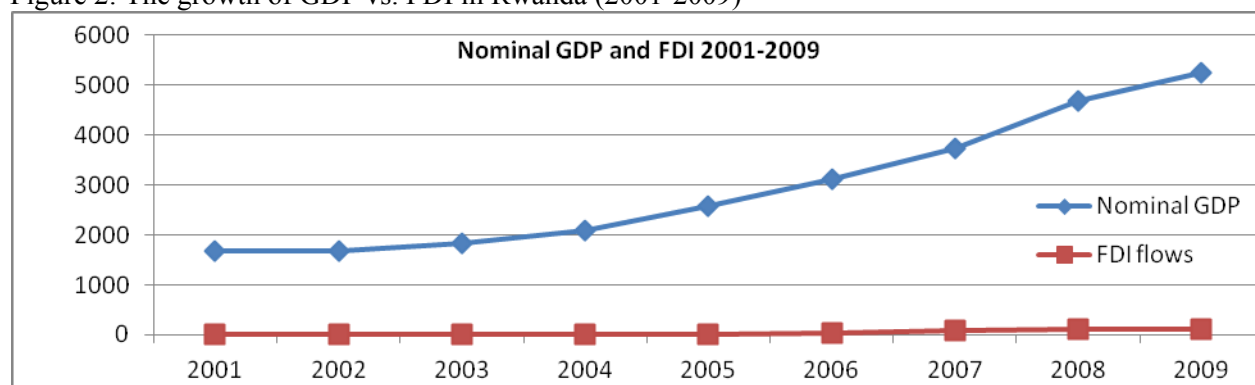
Source: National Bank of Rwanda

As table 2 shows, top 10 countries account for over 85% of investment in the country and a large part of it (table 3) has gone into ICT which accounts for over 50% of all investment followed by manufacturing (13%), finance and insurance (11%), and mining and quarrying (7%). The total amount of investment of \$383 million went into a total of 92 projects. The largest number is by companies from Kenya (18) followed by US and South Africa (7 each), China and India (6 each), Germany (5), Belgium (4), Switzerland (3), Libya (3), Lebanon (3), Uganda, UK, Tanzania, France, and Canada (2 each).

### **Success in attracting FDI projects and the challenges**

Rwanda had been active in improving the investment environment and putting in place incentives (see below) to attract foreign investment and as we have seen in figure 1 the flow of FDI has indeed taken off since 2005. However, the amount is still small when compared with the GDP of the country. The growth of two parameters over the time period 2001-2009 is shown in figure 2. As is evident in the figure, the growth in FDI has been very good, but it has not been in tandem with GDP. This is a simple but profound issue. An additional associated point is that as yet, 95% of FDI is located in Kigali city apparently on developing the required infrastructure. Before we assess these issues further, it will be instructive to first delineate the role of institutions in attracting FDI in the country.

Figure 2: The growth of GDP vs. FDI in Rwanda (2001-2009)



Source: Based on data from Rwanda's central bank.

### The Role of Institutions in attracting FDI

A strong institutional framework dedicated to assisting investors is an important pillar to attract FDI. We review in this section the role the institutions in Rwanda have taken to attract FDI. This review should work as a backdrop for some summary policy recommendations made at the end of the paper.

Rwanda is member of East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) where protocols on trade facilities among member countries have been signed, put in place and are operational. The landlocked situation is also being considered through important projects such as the railway project connecting the country to Tanzania, the Akagera river navigability and the ICT development.

The administrative processes have been addressed by putting in place the "Rwanda Development Board (RDB)", a public institution duly organized and governed under the organic law N0 53/2008 of September 2, 2008. The institution is in charge of formulating and executing cooperation policies, stimulating investment and private initiatives as well as ensuring compliance with the legislation and other requirements that govern private investment in Rwanda. So far RDB has identified some good reasons to invest in Rwanda:

- (a) A Strong macroeconomic environment characterized by high average annual growth of GDP, stable exchange rate, low inflation and reasonable tax rates. .
- (b) Stable governance climate and established court systems with separate Commercial courts.
- (c) Investor friendly environment open for business with no sectors barred to foreign investors and no restrictions on the percentage of equity they may hold, fast administrative processes, attractive incentives etc.
- (d) Abundance of opportunities as Rwanda remains quite virgin territory for investors.

Important facilities and incentives have been put in place for foreign investment. Goods and services imported according to the certificate of registration of an investment project are exempted from payment of value added tax that is levied on such goods and services. A holder of a certificate of registration of an investment project benefits from what is provided for by the law on direct income tax in the framework of promoting investment in the country.

Further, any investment enterprise that invests \$100,000 automatically gives the owner the right to recruit three expatriates. In case of necessity of more than three expatriates, the company can apply to the RDB. A foreign investor and his or her expatriate workers are entitled to a free initial work permit and a free residence visa valid for a period of one year. An investor who deposits an amount equivalent to \$0.5m in an account in one of the commercial banks in Rwanda for a period of not less than six months is given the right of acquiring permanent residence status in the country. The investing company benefits from incentives on building and finishing materials, for a construction

project to be completed within a period of twenty four months. It, however, should conclude the contracts with registered companies in Rwanda which pay taxes and which employ nationals of the country, use materials available in the country, for a project worth at least \$1.8m and which uses the allocated land and does not degrade the environment. In line with the regulatory framework, specialized courts in charge of addressing issues related to doing business in the country have been put in place. Rwandans can speak Kinyarwanda, English, French, and Swahili which eases communication with most investors.

The institutions working on FDI can be classified into two main groups. The first group is on improving the investment environment in terms of regulations and all other means of FDI attraction and support to investors. The other group is on the statistical side and captures and evaluates the results of efforts put in place via the investment's environment improvement. Recently, Rwanda has been ranked fifth (after Mauritius, South Africa, Botswana and Namibia), by the International Finance Corporation in the Sub-Saharan region in ease of doing business. The Rwanda regulatory framework provides a clear guideline to operators. In line with attracting FDI, Rwanda has put in place an updated investment code in 2005. This law delineates the rights and responsibilities of investors related to their operations in the country as well as those of RDB as an agent in charge of the investment in the country. The investor is required to submit in writing an application for investment registration to RDB. He is also required, among other things, to pay a non-refundable registration fee equivalent to \$500, explain the nature of the business, submit a clear activity plan and value of planned capital investment, the estimated number of employees and categories of employment to be created, the prospects of transfer of new technology, an environmental impact paper prior to project implementation in line with Rwandan laws; the nature of support needed including plots of land for industrial and agricultural activities, public utilities, work permits, visas and others. The holder of a certificate of registration is required to keep proper financial and accounting records of his company, to declare the profits of the investment enterprise as required by the tax laws and to transmit a copy to RDB, to produce a detailed annual activity report, to provide required information and communication on important changes to be made. The RDB has the obligation to rapidly process the request for company registration. When the documents accompanying the application letter for registration of the project are complete, the RDB issues a certificate of registration to the applicant within ten working days.

The foreign exchange regulation is set and enforced by the National Bank of Rwanda. As one of the other institutions responsible for promoting and facilitating investment in the country, the National Bank of Rwanda has been reviewing the exchange regulation to ease investment. Through the capital account liberalization, investors are given flexibility in terms of capital movement. FDI in Rwanda as well as the acquisition of Rwandan transferable assets by foreign non-residents is fully liberalized. Future repatriation of current income relating to the investments stated above, as well as the net profit from liquidation of capital invested by transfers of foreign currency into the country is freely carried out by licensed banks. This is an important development as it relates to investor freedom in moving their capital for investments to better opportunities when they occur. Rwanda has also put in place a judiciary system dedicated to business issues. Where a dispute arises between a foreign investor and the Government of Rwanda or Agency in charge of investment promotion, in respect of a registered business enterprise, the law stipulates all efforts shall be made to settle the dispute through negotiations towards an amicable settlement. Where this fails, the case is forwarded for arbitration within the framework of bilateral, multilateral or international conventions ratified by Rwanda.

### **The Score Card of Institutions in attracting FDI**

Although the amount of FDI as a percent of GDP is still small, the efforts made by institutions in attracting FDI, in particular after 2005 (fig-1) is commendable. RDB asserts that the concerted efforts of government's institutions succeeded in kick-starting the investment in a number of sectors, most importantly in the ICT, a sector which has attracted over \$500m in investment over the last three years by both the private and public sectors. The government has invested in building the ICT infrastructure through a 2,500km optic fibre that covers Kigali city and the entire country, with a total

of 7 regional links to neighbouring countries. ICT currently encompasses landline telephones; dial-up, ISDN and broadband based internet, software use and development, computer hardware, assembly, and repair. Major players in telecom are MTN Rwanda and Rwandatel that presently offer fixed telephones, mobile telephones, and internet services. At the same time, TiGO, the 3rd operator commenced operations in 2009. A sizeable private sector is growing around the networking and software development sectors, with Rwandan companies exporting services to Burundi and Eastern provinces of neighbouring Congo. Rwanda is participating in a \$24 Million World Bank project to connect to the undersea cable lines. The country has 4 airports of which Kigali international airport is the largest connecting the country to the rest of the world for passenger and goods transportation. Another big airport is planned to be constructed in Bugesera District. All roads linking Kigali to other towns and neighbouring countries are largely paved.

Presently, energy from wood represents 80% of total usage. Power grid coverage is planned to expand to 67% of the region by 2012 through a \$311m capital budget roll-out plan with Transmission and distribution networks planned to expand from 3,300km to 5,000km by 2012. However, electricity coverage remains low and accessible to only 6% of population. Methane Gas worth 50-55 billion m<sup>3</sup> has been identified in Lake Kivu, and the first Gas Concession and Power Purchase Agreement was signed with Contour Global and a 100MW Kivu Watt power plant under construction is expected to produce 4MW/hour with \$324 Million of planned investment. Further opportunities such as a 2nd concession at Lake Kivu and conversion of gas to liquid and gas to fertiliser also exist.

Agriculture is the bedrock of the Rwandan economy. Privatization of tea plantations and factories begun in 2009 is ongoing. Rwanda's main mineral exports are ores processed to extract tin, coltan and Tungsten. Only 25% of \$200m worth of output a year is currently being exploited. Thus significant opportunity to increase production in industry and mining exists. Diverse opportunities in quarries (for construction materials) and precious stones (gold, diamond, beryl, topaz, rubies, sapphires, gamets and other unexploited deposits) have been identified.

Tourism within Virunga National Park a natural habitat for 600 of the 800 rare mountain gorillas (made famous by the work of Diane Fossey) is being strengthened. The park now has a mountain lodge in the 'Condé Nast Hot List'. The rainforests of Nyungwe National Park is home to rare chimpanzees, birds and elephants. Rwanda has over 1/3 of Africa's bird species, the highest concentration in Africa with 260 species in Nyungwe forest alone. Lake Kivu is surrounded by stunning beaches and dormant volcanoes covered by lush vegetation. A four star Serena resort is one of several hotels being developed. Akagera National Park offers the potential to be one of East Africa's great safari destinations. The visitor numbers have been on the rise.

### **Theory meets practice**

In section II we provided a summary of theories that explain the reasons behind multinational enterprises (MNEs) undertaking FDI in host countries. In varying degrees, one or more of these explanations can be applied to explain the reasons behind MNEs investing in Rwanda. However, of all the explanations listed, the OLI paradigm of FDI (Dunning 1993) seems to explain the incoming FDI in Rwanda well. This paradigm posits that for a country to attract FDI it must have some location advantages (such as cheap labour, availability of raw materials, excellent transport) that will attract the foreign investor. For FDI to occur, the incoming investor should have some proprietary advantages (such as technical knowhow, brand name, etc.) which it wishes to exploit by undertaking the business project itself as opposed to licensing it. As pointed out in previous sections, the Rwandan government has started to take some serious steps to modify its infrastructure—an essential part of location advantages, which has started to attract FDI. Although incoming FDI is most welcome, in particular, in infrastructure projects, we propose that the reasons behind FDI in the country be understood in some detail by the Rwandan government. This caveat stems from the fact that although the literature is replete with the merits of FDI, there is also counter evidence. For instance, in a study by Loungani and Razin (2001), they point reasons why a high share of FDI in total capital inflows

may be a sign of a host country's weakness rather than its strength. It is possible that FDI flows in these countries where the quality of institutions is lower and explain their seemingly paradoxical findings by the fact that FDI is more likely than other forms of capital flows to take place in countries with missing or inefficient markets. In such settings, foreign investors will prefer to operate directly instead of relying on local financial markets, suppliers, or legal arrangements. The policy implications of this view are that "countries trying to expand their access to international capital markets should concentrate on developing credible enforcement mechanisms instead of trying to get more FDI" (Albuquerque, 2003). In a similar vein, Hausmann and Fernández-Arias (2000) suggest, that "countries should concentrate on improving the environment for investment and the functioning of markets". In such conditions they are likely to be rewarded with increasingly efficient overall investment as well as with more capital inflows. The domestic investment undertaken by FDI establishments can be heavily leveraged owing to borrowing in the domestic credit market. This coupled with the fact that funds can be repatriated can lead to net outflow of funds from the country. Automatic efficiency gains from hosting FDI hinges on a number of assumptions such as longer term commitments from the investor side through new plant equipment and policy maker reciprocal bargaining once such investments are in place (UNCTAD, 2005). A recent study on the impact of FDI on Rwanda's development showed that the gross domestic investments and government consumption significantly impacts on GDP; but not the FDI (Mwitirehe, 2006). With Greenfield investments, influx of MNEs can crowd in domestic investment given that they have the right to unrestricted entry and exit of capital and minimum state intervention. Too many incentives to attract MNEs through tax holidays, one stop shops for investment, trade protection, and privileged legal status, easing restrictions on entry and profit repatriation, and other facilities may have displaced discussion on the appropriate policies needed to encourage domestic investment.

## **Conclusion and policy recommendations**

The discussion in the previous section is not meant to undermine the merits of FDI in developing host nations that are in urgent need of capital investment to create jobs and raise standard of living of the masses. MNEs with their access to capital, skilled labour, and entrepreneurial talent at their disposal are formidable drivers of growth and there is no reason to shy away from them in today's globalised world. Their immense resources can be harnessed to host country's advantage with a judicious mix of provision of facilities and meaningful negotiations that can result in a win-win situation for both the MNEs and the host country. The Rwandan government has done a commendable job thus far in kick-starting the development process after a painful period of political unrest and economic upheaval. As the data shows, FDI has taken off since 2005. However, the initiatives to attract FDI and distribute it more evenly within the country can be strengthened by reviewing and adopting a long term view of the growth process. Space does not permit us to undertake a detailed discussion; as a result we provide the following framework as recommendations for policy makers.

1. Take a stock of FDI: The first step would be to take a proper and detailed update of the stock of all FDI in the country. The government needs to understand in detail such issues as MNEs' reasons for coming into Rwanda, their financing patterns, production and services patterns, employment creation activities, medium and long term plans, collaboration with local enterprises and the linkages with them, and so on. Such a survey which we believe is being planned should be exhaustive for benchmarking purposes with future surveys.
2. Stock of mineral resources: Take a detailed survey of the country's mineral resources. More importantly, perhaps, have a debate on policy issues such as how long they should be mined bearing in mind that these deposits are finite—they can either be mined ruthlessly and exhausted soon enough, or mined more cautiously, and the generated revenues used judiciously over a number of years. Another matter of extreme importance is the right to their exploitation. Should overseas companies be involved and, if so, in what degree and intensity bearing in mind that once these resources exhaust, MNEs mining them would disappear as well.

3. Attention to agriculture: The primary responsibility of a sovereign government to its subjects is to feed, house, cloth, and attend to their medical needs (basic provisions). All of the other responsibilities come second. Recurring famines and deaths of millions in the African continent, owing to lack of these basics, is a stark reminder which should direct policy planners to get the priorities right. With this view, a serious effort needs to be diverted to becoming self-sufficient in the provision of food and to make sure that the citizens have right of access to basic amenities. Debate should be initiated as to how this can be achieved with private (including FDI)-public partnership. A basic decision on agriculture and fallow land would be how to raise its productivity through innovative use and modernisation. Encouraging research-intensive FDI in the provision of affordable and highly productive agricultural inputs and machinery that is relevant to the Rwanda setting is one way to go about it.

4. Services sector: Main components of this are the banking and financial services and tourism. Both need to be treaded carefully. Presently, the banking system is composed by nine commercial banks, mostly majority owned by foreigners. Only 15% of population have access to, and use the banks. Banks can be an important source of micro finance and for harnessing savings (presently an encouraging 14% of income) for people in the countryside. This aspect should be carefully and urgently explored. Development of tourism can be an essential and sustainable part of a country's development. It can also become a liability (e.g., for environment) if not developed in an orderly manner. Developing a sustainable tourism sector that benefits the indigenous populace as well as the investors should be another key consideration for policy makers. Engendering a symbiotic relationship between small populations living on the fringes of parks with park establishments such as food provision to tourist lodges, development of local content art and craft cottage industries etc is one such example.

5. Building strong institutions: Last but not the least, the country should keep working on its governance and institutions bearing in mind that countries that have developed have adhered to principles that assure its people, security, freedom, order, justice, and welfare. There is no short cut to development but this is the sure way.

<sup>1</sup> All reported figures are in US dollars.

**Note:** All views expressed in this paper are those of the authors and not of institutions they are affiliated to.

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## **Gender and Economic Development**

## Assessing the impact of the “Prosperity for All” program on Ugandan urban and rural women borrowers

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*The prosperity for all program (commonly known as Bonna Bagaggawale) launched by the Government of Uganda in 2006 is aimed at improving household incomes through a number of strategies including the provision of affordable credit to the poor, many of whom are women. This endeavor comes on the heels of a similar project (Entandikwa Credit Scheme) which was a failure. This study examines whether there were any lessons from the Entandikwa scheme that were learnt and incorporated in the PFA program, and evaluates whether there has been an observable improvement in the empowerment and social capital status of women recipients of the loan funds. The study utilized both qualitative (FGDs) and quantitative techniques (survey) to collect data from a sample of women in two districts one urban and another rural, using measure from published instruments. T tests and regression analyses were used to analyze quantitative data, while qualitative data was transcribed and arranged in themes. Findings indicate that women borrowers from both districts benefited in terms of empowerment. However regression analysis indicates that empowerment only predicts well being in urban rather than rural sample, while social capital status does not predict well being in both samples. Implications for practice are suggested in study.*

### Introduction

Poverty has been a major impediment to Uganda’s development ever since independence from British colonial rule in 1962 such that by 1992, 56% of Ugandans lived below the poverty line (GOU, 2008). In 2002, Uganda’s population was approximately 24.4 million people, 49% of whom were below 15years (UBOS, 2002). With a population growth rate of 3.3% per annum, this country has one of the fastest population growth rates in the world, and the second highest in Africa (UPHC, 2006). Currently the projected 2011 midyear population stands at 33 million persons (UBOS, 2011). Based on 2009/10 survey data, UBOS (2011) estimates that 24.5% of Ugandans are poor, corresponding to 7.5 million persons. On average however, the period 2005/6 -2009/10 recorded positive growth in per adult consumption, i.e. the percentage of people living in absolute poverty declined significantly, though the reduction in number of poor persons in absolute terms is not significant. In short, while the country met the Millennium Development Goal of halving poverty by 2015, worsening distribution of income and population growth if not addressed will most likely reverse this trend (UBOS, 2010). Poverty remains far higher in rural areas than in urban areas i.e. the rural areas where most of the population lives account for 94% of poverty in the country (UBOS, 2011). Hence dealing with the eradication of poverty is a priority program of the Uganda government, through its Poverty Eradication Action Program (PEAP, 1997) policy framework (GOU, 2008). To reduce income inequality, PEAP emphasizes the strategic improvement of access to credit by the poor through microfinance (Okurut *et al.*, 2004).

A major problem that the poor in Uganda face is access to credit rendering them unable to take advantage of opportunities in the environment (Okurut *et al.*, 2004). Only 38% of Ugandans have access to financial services, with 21% accessing formal and 17% accessing informal services (AMFIU, 2008). This is particularly because commercial banks are not willing to open their doors to poor clients (UBOS, 2010). The major reason for the sidelining of these groups, is that traditional banking is based on guarantees, reputation and collateral all of which are lacking among the poor (Koveos and Randhawa, 2004), besides illiteracy, unsuitability of some products,

and lack of financial awareness (AMFIU, 2008). Hence in realization of this fact government recognizes microfinance as “a suitable engine for growth through the provision of financial services to the poor” (AMFIU, 2008). In cognizance of this fact, GOU in the recent past initiated and implemented or supported various micro credit schemes whose major aim was to fight poverty through provision of affordable micro credit to the poor, for example Rural Farmers’ Scheme, Poverty Alleviation Project, Entandikwa Credit Scheme, Cooperative Credit Scheme and Youth Entrepreneurship Scheme; while these programs had sound objectives and achievable goals, their implementation lacked effective methodologies and adequate management and coordination, thus their performance was characterized by poor loan recovery, inefficiency and high management costs, leading to their eventual failure (MFOPED, 2003). Further, the recovery performance of these programs was poor because they were perceived as government grants (Okurut *et al.*, 2004).

Drawing from this experience, the Medium Term Competitiveness Strategy for the Private Sector (2000) underscored the need for government to divest its self from the delivery of direct credit and leave it for the private sector. Consequently government in the period 2002-2005 declared its withdrawal from direct provision of microfinance and committed its self to creating an enabling environment for private sector delivered microfinance (AMFIU, 2008). In line with this stand and as an off shoot of the PEAP (revised in 1999/2000 and in 2003), government came up with a strategy to stimulate income generating activities at house hold level.

In 2006 when the country adopted a multi party political dispensation, this strategy was code named “Prosperity for All”, and it was launched as part of the ruling party’s political manifesto. The main objective of this program is to improve agricultural productivity, to increase access to financial services and to enhance market access through value addition. To operationalize the PFA, government adopted the Rural Finance Services Strategy (RFSS) as a vehicle for developing suitable financial infrastructure for delivering rural financial services (GOU, 2008). Whereas PFA is intended to address structural constraints faced by communities e.g. production, post harvest, packaging, marketing and provision of information, RFSS helps to facilitate this process. Specifically, government through RFSS supports households to start community based financial savings and credit cooperative societies (SACCOs) in all sub counties in the country. Government provides institutional and technical support to these SACCOs through an apex body, UCSCU. Through two whole sale lending institutions, SACCOs borrow money for onward lending to their members, the majority of whom are women as evidenced by the UNHS 1999/2000. MFI focus on women is explained by the perception that women are a disadvantaged group, whose traditional social and economic deprivation warrants affirmative action (Okurut *et al.*, 2004). This is further explained below.

In the extant literature, women are responsible for managing the home, as well as ensuring the future livelihoods of their families, be they earning an income or not. Further in the African setting, women head the majority of households and spend most of their earnings on their home, especially their children (Marshal 2002; Budlender 2002 in Kajimo-Shakantu & Evans 2007). Despite all the above roles, women are the most excluded group from access to basic services and decision making (ECA 2005). Hence most times women have no collateral to enable them get sizeable loans, since men own the productive resources. For example in Uganda, only 7% of land is owned by women and in extreme cases, women have no ownership of the benefits from their enterprises (SNV Gender Policy 2002-2007). Ugandan society is multi –ethnic and within this cultural environment are common threads of gender inequality embedded in patriarchal beliefs (Mirembe and Davies, 2001 p. 402). Similarly, Kaleeba, Ray and Willimore as well as Obbo (in Mirembe and Davies 2001), define Ugandan society as patrilineal. In this view, women are subject to their fathers and later to their husbands. Further in a patrilineal society, it is unusual

for a woman to be granted inheritance, as it is supposed to follow the patrilineal line (more insights on the broader status of women in Uganda can be found in Bond, 2005). The net effect of this cultural set up is that women in Uganda are disadvantaged in many ways for example the distribution of credit to females accounts for only 9%.(MOFPED, 2007). Further this cultural orientation creates a power imbalance in the home in favor of men and negatively impacts on women decision making.

In light of persistent gender inequalities in Uganda, the fact that earlier government programs were not successful, the RFSS is relatively new, as well as the fact that the outreach and eventual impact of microfinance has been an issue of hot debate in Uganda and elsewhere (Blatter *et al.*, 2006), the specific objective of this paper is to examine the impact of the Prosperity for All program on women in Uganda. Specifically the study examines whether there are lessons from the ECS that were incorporated into the RFSS, whether women have been empowered as a result of this program, and whether their social status has changed positively. The findings of this study should be of value to the different stake holders in the microfinance industry in emerging markets where women access to credit is still problematic (ECA, 2005). The paper proceeds as follows. The next section is a review of the literature on microfinance, empowerment and social capital, followed by the methodology used in conducting the study. The subsequent section presents the findings, followed by a concluding discussion.

## Literature Review:

### *Definition and importance of microfinance*

Microfinance is a program that has been designed to assist poor needy people and is defined as the provision of financial services to low income clients, including the self employed (Ledgerwood, 1999). Microfinance has enabled thousands of women to use small loans to develop their livelihoods and improve the welfare of their families. By providing financial services to the poor to set up micro enterprises, MFIs have proved that the poor are bankable (Khandker 2001 in Gehlich-Shillabeer, 2008) and are no longer recipients of charity but are customers to be served (McCarter, 2006)

### *Structure of the finance sector in Uganda*

The finance sector in Uganda is composed of 4 tiers as shown in the table below. Tier 1 institutions do wholesale lending to MDIs and other MFIs, some tier 2 institutions lend to MFIs and SACCOs, Tier 3 institutions offer loans and deposit facilities to SACCOs, while tier 4 (most of these organizations were registered by the Ministry of Trade as Savings and Credit Cooperative Societies (SACCOS) or as NGOs under the NGO Board), are suitable in rural areas because they are member based and hence easily respond to their needs (AMFIU 2011/12).

Table 1: Ugandan Financial Sector Structure

	<b>Tier</b>	<b>Institutions</b>	<b>Number</b>	<b>Applicable Act/Law</b>
Formal and Semi-Formal Institutions	1	Commercial Banks	23	Financial Institutions Act 2004
	2	Credit Institutions	3	Financial Institutions Act 2004
	3	Microfinance Deposit – Tasking Institutions (MDIs)	3	MDI Act 2003
	4	MFIs registered as	>1,000	Not under the purview of the of

		NGOs, Companies	SACCOs,		Bank of Uganda, draft law still under discussion by stakeholders
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Source: AMFIU 2011/12

The table above shows that SACCOs are not under the purview of the central bank. Regulation of the MFIs is a highly debatable item because of the range of issues that policy makers must address. SACCOs in Uganda are currently regulated under the Cooperative Societies Regulations 1992, which lumps together all types of cooperatives and has many inadequacies (GOU, 2008). An examination of the literature on supervision and regulation of MFIs indicates that most of the extant literature favors regulating only deposit taking MFIs (McGuire *et.al.*, 1998). However, GOU (2008) posits that there is a need for a specific SACCO act, regulations to guide SACCO operations and an independent regulator. This regulation is premised on the need to protect customers should the microfinance institution default.

### **The theory and approaches of micro finance**

A number of theories underpin the development of microfinance. Stiglitz and Weiss (1983) advance the imperfect information paradigm, which postulates that in cases where information is costly and imperfect, information asymmetry between the loan applicants and the lenders (e.g. banks) leads to strategic self maximizing behavior. Since information that would reveal the creditworthiness of the borrowers is absent, lenders impose a high interest rate to offset the risk associated with this information asymmetry. The approach that microfinance uses has a great impact on poverty eradication. There are two main approaches (Rhyne, Gulli in Robinson 2001). The financial systems approach emphasizes outreach to the economically active poor, thus focusing on institutional self sufficiency. The lending approach concentrates on reducing poverty through credit, which is usually provided with complimentary services such as skills training, literacy education, health, nutrition, family planning, etc. Thus in this approach, credit (government and donor based) is extended to borrowers at below market interest rates. It is imperative to note that both approaches have made significant contributions to the development of institutional microfinance. It is argued, however, that governments and donors cannot finance all the hundreds of millions of the poor who are in need of microfinance, hence the second approach is not sustainable and neither is it geared toward mobilizing savings. Hence, as Rhyne observes, the poverty/sustainability debate is anchored on whether or not to subsidize interest rates. In this regard, formal sector commercial microfinance without subsidies has proven itself able to make financial services (credit and savings) available to low income clients profitably (Robinson, 2001). This is the approach of microfinance in Uganda, with various impacts.

The impact of credit on the incomes of the poor is mixed in the literature. Some authors like Coleman(1999) on a study on women and village banks came to the conclusion that credit is not an effective instrument for the poor to improve their economic condition, and that the poor are poor because of other factors such as lack of access to markets, but not because of lack of access to credit. However, many other studies argue that credit boosts income levels, increases employment at household level and thereby alleviates poverty (Okurut *et al.*, 2004). In support of this view, Diagne and Zeller (2001) posit that lack of adequate access to credit for the poor may have negative consequences for various household level outcomes e.g. agricultural productivity, food security, nutrition , health and overall welfare.

### **The Entandikwa credit scheme (ECS)**

Entandikwa is a local Luganda word which means “start up capital”. The ECS scheme was proposed by parliament in 1993 to cover credit needs of the war ravaged areas (originally 14 districts), but was expanded to cover all 214 constituencies, each allocated a fixed and equal amount which affirms its political nature. The ECS began lending in 1995 to small entrepreneurs to undertake productive commercial ventures, reduce poverty and there by improve the well being of the poor population in both rural and urban areas (MFOPED, 1995). Specifically, the scheme targeted people who could not obtain funding from the commercial banks. The scheme was meant to be a revolving fund to support income generating activities and create employment among the rural and urban poor, rural artisans, women, youth and the disabled in Uganda. Under the ECS, 30% of the credit was allocated to women and the youth (ILO, 2003).

Beneficiaries were meant to utilize the loans to generate enough income to service the loans, repay the principal and retain a reasonable surplus for the borrower. Application for funding was a complex process. First, projects to be funded were proposed by the beneficiary with the help of an Intermediary Agency, IA (which was a Financial Institution, NGO or Community Based Organization CBO). Secondly, potential beneficiaries applied for the funds through the local government structures i.e. Resistance Councils Structures starting with the RC1 (village level council), then through RC2 (parish council level) and lastly through RC3 (sub county or town council level). The application was then sent to the County Steering Committee (RC 4) which would consider the approval or rejection of the application. The CSC would then communicate to the DSC through the DES the projects that were approved for funding to the ECS secretariat. The ECS secretariat would then release money to the DES, which would in turn release it to the IA, for onward transmission to the applicant (MFOPED, 1995). This project failed because the borrowers could not pay back the loans (Dichter and Kamuntu, 1997). According to the *Crusader* (1996) the ECS failed because “the government failed to educate the beneficiaries of the scheme on how to invest the money profitably and instead, hurried to “dish it out”. Similarly, *The monitor* (1997) argues that “Entandikwa ... was dangled mostly as a political gift” which the RC officials allocated to themselves and failed to pay back. The table below summarizes the differences between the ECS and the RFSS.

Table 2: Comparison of ECS and RFSS

	Entandikwa Credit Scheme	Rural Finance Services Strategy
Initiator	Parliament of Uganda (Sewankambo 2007)	NRM political party (GOU 2008)
Implementation process	Operationalized directly through local government structures (MFOPED 1995)	Operationalized indirectly through SACCOs (GOU, 2008)
Funding	Funded entirely by government of Uganda (MFOPED 1995)	Funded by donors
Process	Application would go through RC1, RC2, RC3, IA, DES and CRC (MFOPED 1995)	Apply directly to SACCO
Interest	Interest free	3% per month
Perception by populace	Viewed as apolitical gift	Viewed as a loan

### ***Empowerment***

Findings from various studies on the impact of access to credit on women empowerment are mixed, with some studies finding a positive impact, while others find none. For example Goetz and Gupta (1994) as well as Ackerly (1995) posit that access to micro finance has a negative impact on women empowerment. In particular, Goetz and Gupta (1994) established that most married women did not have control over the loans i.e. women borrowed the money and men took over the control of these loans. Similar results were found by Ackerly (1995), while Montgomery *et al.* (1996) interpreted family partnerships as disguised male dominance. Okurut *et al.* (2004) refer to these scenarios as responsibility without control which can degenerate into domestic violence against women. Other studies have however confirmed that there is a clear link between women empowerment, women access to microfinance, and positive impacts on the level of poverty (Mayoux, 2000). Specifically, Rahman (1986) interprets joint decision making as a positive impact, while Kabeer (2001) using indicators such as political awareness found that microcredit has a positive impact on women empowerment.

### ***Social capital***

Social capital is defined in different ways by different authors depending on the research question although most authors define social capital from a network perspective (Lin and Huang, 2005), a position adopted by this paper. Raider and Burt (1996 p.187) define social capital as “the structure of individuals’ contact networks-the pattern of interconnection among various people with whom each person is tied”. Social capital theory is premised on the notion that a network provides value to its members since it enables them to access the social resources embedded within the network (Florin *et al.*, 2003). Thus the amount of social capital one possesses depends on whether he /she can occupy an advantageous network position where they get connected to others who possess the desirable resources such as financial support (Lin and Huang, 2005). Extending social capital to microfinance, Brau *et al.* (2008), refer to this variable as the degree of trust and supportive relationships that an individual derives as a consequence of obtaining credit, growing a business or generating an income etc. In this case, social capital is premised on the notion that increased financial success fosters more support from others (Van Bastelaer, 1999). Hence it is assumed that women’s social capital will be enhanced as a result of obtaining credit.

Poverty can best be described in both absolute and relative terms (Zeller *et al.*, 2003). In absolute sense, the poor are materially deprived to the extent that their survival is threatened, while in relative terms they are also deprived “in relation to other social groups whose situation is less constraining” (UNDP, 2001). This study focuses on the relative dimensions of poverty and specifically examines the extent to which microfinance impacts upon empowerment and social capital status of women borrowers under the PFA program.

### **Method**

The study utilized a triangulation technique (Campbell and Fiske 1959; Hunt 2011) in that both qualitative and quantitative approaches were used. The study started with a review of the extant literature on microfinance, followed by conversations with experts in the subject matter, who included managers of SACCOs, MFIs researchers, women leaders and gender specialists.

A sampling frame of all the MFIs that are participating in the PFA program was obtained from AMFIU. In Kampala district one out of the two SACCOs on this list was chosen because the officials of the other one were not cooperative. In Mukono district, two of the four SACCOs on

this sampling frame were chosen randomly. Data was collected through 3 focus group discussions in the two study districts i.e. one in Kampala and two in Mukono. The FGDs consisted of 5 women each, who were selected with the help of officials of the SACCOs. A questionnaire was later distributed to a convenience sample of women members who had borrowed funds from the SACCO. A snow balling approach was also used to identify these borrowers.

### ***Measures***

The FGD guide was a qualitative tool with items generated from USAID tool 5 and FINCA (2009) client assessment tool. Basically respondents were requested to debate whether there have experienced a change in life since acquiring the loan. The quantitative questionnaire consisted of three sections. In section 1, personal data of the respondent was captured. Section two sought information about the loan while section three measured empowerment, social status and well being. Social status was measured with three dimensions from Narayan and Cassidy i.e. group characteristics, neighborhood connections and trust. Participation in group activities was measured on a 5 point likert scale ranging from “1” to a very small extent to “5” to a very large extent. The extent to which the respondent was connected to her neighborhood was measured with 2 questions anchored on a 5 point likert scale “1” very unlikely to “5” very likely e.g. “How likely is it that you will ask your neighbors to take care of your children for a few hours if you were sick?” The extent to which the respondent trusted various categories of people was measured with 3 questions anchored on a 5 point scale “1” to a very small extent to “5” very large extent. Well being was measured with two items from FINCA (2009) i.e. self assessment of health, satisfaction. Using a dichotomous scale (Yes/No), and items from Swain (2007), empowerment measured whether the respondent involvement in decision making increased after taking the loan in areas like daily household activities , feeling fearless, open and confident, and a self determination measure from FINCA (2009).

### ***Data Analysis***

Data from the FGDs was transcribed and arranged in themes. In all 64 usable questionnaires were collected back. These were divided into two: the first half (N=30) were those in Kampala while the second half (N=34) were those from Mukono. Descriptive statistics were obtained, followed by ANOVA, correlation analysis and regression.

### ***Descriptive Statistics:***

In terms of age, the 36-45 group were the majority (32.8%) followed by the 46-55 age group (25%), followed by the 26-35 (15.6%) , followed by 18-25(14.1%) and lastly the over 56 years age group were the least (12.5%). 62.5% were married, singles were 23.4% , while widows were 14.1%. In terms of level of education, ordinary level holders were the majority (31.3%), followed by Primary school leavers with 28.1%, those with tertiary level education were 25%, followed by A level 14.1%. On average the respondents had five dependants, with an average of three school going age children. All of them had received a loan from a SACCO, with 32.8 % having received less than \$200, those who received \$200-\$400 were 50.8%, while those who received \$400-\$600 were 13.1%, while over \$600 were 3.3%. About the size of the loan, 3.3% considered the loan too large, 55% thought it was just right, while 41.7 considered it too small. Most people took the loan to improve their businesses (75.9%), while 5.2% took the loan to start a new business, 3.4% took the loan for land purchase , while those who used the loan to pay school fees were 12.1%, while 3.4% used the money for other purposes.

61.9% had run their businesses for over two years, followed by 20.6% who had run the business between one and two years, while 11.1% had run the business from six months to one year, while 4.8% had run the business for less than six months. In terms of collateral, 57.7% acquired group



loans, while 13.4 % used a land title, 9.2 % used a TV as security, 5.8% used furniture, while 3.8% used radio.

Most people were to pay the loan in six months (67.8%), those to pay in 12 months were 20.3%, and those to pay in one month were 5.1%. Most people were to pay the loan monthly (82%), 11.5% were to pay weekly, while 4.9% were to pay fortnightly. The duration of the loan was considered just right by 61.7%, while 35% considered it too short, while 3.3 % thought the duration was too large. 51.7% new the interest rate they were to pay, while 48.3% did not know. The interest rate was rated as too high by 52.6%, while 42.1% thought it was just right, while 5.3% thought it was too low. Most people had taken the loan from the particular SACCO because it was close to home or place of work (57.9%), 18.4% said they took the loan from this SACCO because group members were their friends, while 7.9% was because group members were relatives, 7.9% SACCO had been recommended by friends or relatives. Overall, 67.5% were satisfied with their SACCO, while 21% were neither satisfied nor dissatisfied, while 11.3 were dissatisfied.

## Findings

Five themes emerged from these conversations. First, these discussions indicate that respondents from both rural and urban SACCOs had different **views on how they accessed loans**. Clients in rural areas are subjected to more strict processes to access loans. Usually they need to have a registered in group, which has an account with the SACCOs. This is not always the case in the urban environment where a person can easily acquire a loan as an individual. If an individual wants a loan from the SACCO in a rural area, she has to approach the leadership of the group so that they can act as guarantors, although in certain cases individuals can borrow directly if they have a security. In the urban areas one only need be a member of the SACCO with a letter from the local village council, start saving, buy shares, and then apply for the loan. She can also use two or three guarantors or use his/her savings as a guarantee to acquire the loan. On average the process takes two three months in both rural and urban SACCOs.

Second, **in terms of welfare**, respondents in rural areas said that they can afford paying school fees for their children these days whereas those in urban areas see their standard of living as having improved greatly, and got peace of mind with little stress emanating from lack of school fee for their children. Specifically, women borrowers from rural areas can now debate issues with fellow members in the group, where as those urban areas had their objective fulfilled as a result of getting the loan.

About decision-making, empowerment, relative freedom, control of household income/ assets and freedom to join clubs, both rural urban and women said they were happy with their life and it had improved drastically since getting the loan. However urban women added that they did not have problems with their husbands who had actually permitted them to join different clubs.

Third, major complaints about the PFA program were mostly from the urban women. They argued that the lack of group loans was a disadvantage to them, besides the loan portfolio from government to the SACCOs being inadequate. Processing of loans and payments of installments from members who have accessed loans both take a lot of time. In particular the delay in payment by borrowers means that other members are not able to access loans.

Fourth, as to how to improve operations of MFIs, respondents suggested that more money (capital base) from government to SACCOs should be increased as SACCOs have many members (old and new); regular training/workshops to educate people about SACCOs be organized, publicity

intensified and lower interest rate offered. Efforts should be made by managers to train people how to fill in deposit/withdrawal slips thus breaking members stigma; loans be easily accessible to home owners (permanent residents) than tenants because they can easily be tracked; loans should be made more accessible to women than to men since women are more reliable when it comes to paying back. Further, respondents suggested that more SACCOs be introduced /opened up since they are more accessible to the ordinary person than commercial banks.

Fifth, SACCO management should make an effort know where their clients stay, while members should make sure that receipts are kept to avoid misunderstandings between managers and clients. Further, there is need for spot audit of SACCOs and a division of roles between executive and management of the SACCOS. In particular, the management of cash should be streamlined while managers should be open to clients especially when there is no money to disburse; Managers should desist from being bribed by their clients to get favors and find ways of increasing the loan amounts.

***Empowerment and social capital status***

This section presents findings about the empowerment and social capital status of the respondents from the survey tool.

Table 3: Decision on how income is spent in house hold

Who decides on how income is spent in home?	Urban (%)	Rural (%)
• Only the man	20	12.9
• Only the woman	23.3	48.4
• Mostly together but more decisions taken by man	-	9.7
• Mostly together but more decisions taken by woman	6.7	9.7
• Together	50.0	19.4
Total	100	100

The tables above shows that urban women are more empowered than the rural ones, since most of them make decisions together with their husbands.

Table 4: Life improvement and decision making in urban and rural areas

Variable	Urban (%)		Rural (%)	
	Yes	No	Yes	No
Life has improved in a sustainable way after getting loan	93.3	6.7	96.8	3.2
Compared to before getting the loan, involvement in decision making in household activities has increased	95.8	4.2	93.1	6.9
Compared to before getting the loan, involvement in decision making in sending children to school has increased	88.0	12.0	85.2	14.8
Compared to before getting the loan, involvement in decision making in all decisions of the family has increased	69.7	30.3	95.5	5.0
Compared to before getting the loan, feeling fearless, open and confident has increased	91.7	8.3	100	0

The table above shows that women in both areas are better off after getting the loan in terms of welfare and decision making.

Table 5: T tests of study variables (Means and Standard Deviations)

Variable	Urban	Rural	P value
Satisfaction with SACCO	3.74(1.06)	3.81(.98)	p>.05
Participation in group decisions	3.33(1.35)	3.70(1.15)	p>.05
Trusting people neighbors	3.59(.89)	2.45(1.64)	p<.05
Trusting group members	3.31(1.62)	2.65 (1.64)	p>.05
Trusting fellow business people	4.25 (.75)	3.16 (1.53)	p<.05
Overall satisfaction with life	3.97 (.90)	4.29 (.82)	p>.05

(Standard deviations in parenthesis)

The table shows that women in urban areas have a higher level of social capital than those in the rural areas.

Table 6: Influence of empowerment and social capital on well being (Urban)

	Step 1	Step 2	Step 3
Togetherness	-.097	-.026	-.085
Trust		-.113	-.184
Empowerment			.514*
Adjusted R	-.043	-.092	.138
Change in Adjusted R		.008	.250

\* p <.05

The table above shows that empowerment predicts well being in urban areas, but not social capital, whereas both empowerment and social capital do not predict well being in the rural areas.

Table 7: Influence of empowerment and social capital on well being (Rural)

	Step 1	Step 2	Step 3
Togetherness	-.052	-.044	.021
Trust		-.054	-.076
Empowerment			-.243
Adjusted R	-.039	-.081	-.067
Change in Adjusted R		.003	.550

## Discussion

This study establishes a number of interesting things about microfinance in Uganda. First, government realized mistakes that were made in earlier credit schemes, especially the Entandikwa Credit Scheme and tried to correct them in the RFSS. As exemplified in table two, obtaining funds under the ECS was a very complicated process which many people in the rural

areas could not afford (i.e. given distance and cost to and from the district headquarters), as well as the various bureaucratic levels an applicant had to go through. Secondly government failed to send the message that the money was not a political gift and that whoever accessed it had to pay in order to keep the fund revolving. Consequently those near the political establishment of the time (Resistance Councils) benefited and did not pay back. These lessons have been addressed with success in the RFSS. First, in line with the Midterm Competitive Strategy (2000), in which government decided to leave microfinance to the private sector, government has consistently sent the message that the funds under RFSS are not a political gift, despite the program being politicized as part of the NRM manifesto. Secondly, the political establishment is not part of the application process (though one can get a recommendation to a SACCO from the political hierarchy). Lastly in terms of proximity, the SACCOs are nearer to the people than under the ECS arrangement.

Focus group discussions generally indicate that both urban and rural women have immensely benefited from the borrowed funds since they claim their standard of living has improved (urban) while rural women are now able to send their children to school. The positive impact of the funds is further collaborated by table four, where both groups admit that life has improved in a sustainable way, and their capacity to make decisions has increased. However, following Rahman (1986) who views joint decision making as a sign of empowerment, table 3 shows that urban women are more empowered than rural women. This assertion is supported by regression analysis, tables six shows that empowerment predicts well being (overall health) (significant beta weight .514), where as this is not the case in the rural area (table seven).

Turning to social capital, t tests indicate that the urban women have more social capital (in terms of trust than the rural women,  $p < .05$ ). However both groups score the same on satisfaction with their SACCOs and overall satisfaction with life.

## **Conclusion**

This study went out to examine whether there were any lessons from the Entandikwa Credit Scheme that were incorporated in the RFSS, and whether this new government microfinance initiative has impacted on women social capital status and empowerment in an urban and rural setting. Although RFSS is used as a political tool by the NRM regime, lessons from the collapsed ECS were incorporated in the RFSS by clearly sending the message that the money is not a gift since one obtains it through an independent intermediary, a SACCO. The PFA programme has definitely empowered the loan recipients in the two study areas, though the urban women seem to have been more empowered and seem to have a higher social capital status.

## **Implications for managerial practice**

A number of areas need to be addressed to empower women and help them gain higher social capital status. In particular, the loan size, interest rates, and availability of funds warrant further examination. There is need to push the gender equality debate in the rural areas, where empowerment by women though improved is still problematic.

## **Limitations of the study**

Time and resource constraints could not allow a more comprehensive examination of impact of the PFA program on women empowerment and social capital status in Uganda. In particular, the absolute dimensions of poverty were excluded from the study for these reasons. Further, the sample size in the two study districts is small. In spite of these shortcomings, it is hoped that the

findings of the study will be of use in finding solutions to social status and empowerment issues of women micro entrepreneurs in Uganda.

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## **The Legal Status of Women in the Political Process: The Nigerian Experience.**

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*The low level of women participation in politics has been hindering their contribution to the development of their nations. Though there is no disputing the fact that the involvement of women in politics in the recent past has been tremendously improved, noticeable in the area of voting and support for their fellow women. However, the actual increase has not been fully translated into women representation in all tiers of government as the number of women holding public offices is relatively low when compare with their male counterparts. Although women's rights in international, regional and national conventions of various African states are note worthy, they are in theory rather than practice. Indeed, there seems to be a tidal change as more women are now visible in some public offices. This paper seeks to examine the changing global participation of women in politics with a view to determining the level of their representation in the new global political trend. It also seeks to examine the challenges globally responsible for the low level of woman participation and/or representation in politics and government.*

### **Introduction**

The position of women in Nigeria reflects their subordinate status. This is not only so of Nigeria but Africa and the entire world. All over the world, women have continuously leveled the allegation of male chauvinism against their male counterparts. In the recent past however, women have been making concerted efforts to prove to the world that they can also contribute positively to the development of their nations if given equal opportunity. It has been noticed that the power to rule many nations has been in the hands of the male members of many societies for a long time. In fact, women have not had the share of the cake of leadership in Nigeria. They have therefore been seeking for power sharing in governance like their male counterparts else where in the world. Though there is no disputing the fact that the involvement of women in politics in the recent past has been tremendously improved, this is however, noticeable in the area of voting and support not only for their women folk but for their chosen political party. This has not been fully translated into women representation in all tiers of government as the number of women holding public offices is relatively low when compare with that of their male counterparts. It is worthy of note that the political right of women is well enshrined in many legislations, international, regional and even the national laws of many African countries including Nigeria, these laws have not been put in practice. There however seems to be a tidal change in the political terrain, as more women are now visible in public offices. This paper therefore aims at examining the changing global participation of women in politics, with particular reference to Nigeria, with a view to determining the level of their representation in the new global political trend. It also aims at examining the challenges globally responsible for the low level of women in participation and representation in politics and government. To achieve these aims, the paper examines the political right of women in Nigeria from Pre-colonial period to date.

### **Political right of Women in Pre-colonial Nigeria**



The legal status of women in Pre-Colonial Nigeria reflects their subordinate nature to their male counterparts. Under various customary laws, certain limitations were imposed on women, especially, in the area of politics, which makes them subordinate to their male counterparts. At this period, there was no specific law imputing any disabilities on them, they were therefore very active in economic and social - political sectors of the society (Ozo – Eson Philomena, 2000). They played key roles in the places of rulers. (Akande Jadesola, 1993) Although it was not common at this period to see women as absolute rulers, one thing that is common is that most African leaders had many influential women around them who represented the interest of the women. For instance in Southern Nigeria, women ruled jointly with their men. The structure of the administration was arranged in such a way that women leaders were co-opted to help the absolute monarchs in the day-to-day management of the state.

In the old Benin, it was the practice for the ruling monarch three years after his accession to the throne to confer on his mother the title of “Iyoba” (Queen’s mother) after which she will be sent to Uselu, a part of the Kingdom, to reign as ‘Iyoba Uselu’ and become one of the King’s important advisers until she dies. In some parts of Igbo land, there was the institution of Omu, which is a council of women similar to that of the Obi and Chiefs (Imam Ayesha, 1993 and John Eberregbulam Njoku, 1980). There were also adult women like men who would attend council meeting in Ibibio. Similarly, in Yoruba speaking area, especially in the then Oyo Empire, the role of *Iya - Afin* was available for the women. There was also the female Ogboni who sat in the meeting of the Ogboni Chiefs. There was also the institution of Iyalode who sat in the Council of Chiefs and who had considerable political and economic power (Ozo- Eson Philomena, 2000). The post of “Iyalode” and “Iyalaje” were available as market women leaders who represent women in chief court (Nnoli O.). In the Northern part, women played prominent roles in the political affairs of the society before the advent of Islam and colonialism (Uchendu P.K, 1995). In some places some of them were leaders themselves e.g. the Queen of Daura was at the helm of affairs and in a position to affect the course of development (Awe Bolanle, 1992). In Borno, Women officials like Magira (Queen Mother) the Gumsu and the Magaram, the officials elder sister of the Mai (ruler) were said to have wielded enormous power and influence from the time of the establishment of Sefuwa dynasty (Abubakar Sa’ad, 1992) .In Zazzau, succession to the throne was made open to both male and female members of the ruling dynasty, and this made the society unique among other Hausa states (Abuba kar Sa’ad,1992). At least, two of their rulers were reported to be women. They are, Bakwa Turunku and her daughter, Queen Amina. History also had it that Amina’s sister by name Zaria also succeeded her (Abubakar Sa’ad,1992). In the Eastern part, the leadership role played by Queen Kambasa of Bonny cannot be underestimated.

The above shows that women in pre - colonial period were not passive but very active in political activities, and have always been participating in the construction and shaping of human societies. They were always ready to sacrifice themselves in the services of their various communities. Queen Amina of Zazzau, Moremi of Ife, Daurama of Daura, all were great women who played very prominent and remarkable roles and sacrificed themselves in one way or the other for the continuous existence of their various communities (Abubakar Sa’ad,1992). Notwithstanding the prominent roles played by these women at this period, the powers exercised by them in their various political activities are far less than their male counterparts.

### **Political Rights of Women in Colonial Period**

The colonial period which began in 1900 changed the whole political set up in Pre- colonial Nigeria. When the British colonized Nigeria, they introduced a lot of changes to most African cultures, especially in the field of education, politics, marriage and economics. Some of these changes however had negative impacts on the rights available to women in pre - colonial Nigeria

(Abubakar Sa'ad, 1992), especially, the political right. At this period, women began to experience oppression in all its ramifications. They were formally marginalized in the political scheme and they seem to have lost all the power they possessed during the pre-colonial era (Akande Jadesola, 1999). In the British Legislative Council of colonial government, there is no record of a single woman appointed to represent the country by any of these government bodies throughout the colonial period (John Eberegbulam Njoku, 1980). This was however seen to be a relegation of the political right of women, which they used to enjoy in the pre-colonial days. The Colonial government abolished various female chiefs which were on ground during the Pre-Colonial period. As a result of this marginalization, women chiefs lost their kingdoms and power they had possessed in the Pre-Colonial Period. The marginalization of women led to mass protest by the Eastern women, which was popularly referred to as Aba riots of 1929 (Nwakwo Obi, 2012). Similar protest was led by Mrs Olufunmilayo Ransome Kuti in 1949 at Abeokuta, where women called for their right to vote and employed new strategies to safe guard their interest in government and ensure the kind of government they desired (Akande jadeso, 1999) and to reject the actions of the colonial government which nuzzled women around, relegate them to the background and shut them out of the active politics which they have been used to for a long time. It was only in 1950 that few of them were offered political administrative appointments. The few that were appointed into the House of Chiefs were Chief (Mrs) Oluwafunmilayo Ransome Kuti, Chief (Mrs) Margret Ekpo and Janet Mokuolu. Also in 1953 and 1958, Mrs Margret Ekpo and Mrs Ekpo young were also among the delegates that attended constitutional conferences between the British officious and Nigeria delegates in London to prepare Nigeria's independence. They however attended as advisers and not given chance to speak officially during the meeting (Nwakwo Obi, 2010). This goes to show that in the area of politics, women were of little relevance during the colonial period. It can therefore be argued that the arrival of the colonial government however suppressed the participation and involvement of women in power and decision-making.

### **Political Right of Women in Post- Colonial Period**

After Nigeria's Independence in 1960, human rights issues began to manifest in the Constitution. This was especially so from the provisions of chapter two of the 1979 Constitution. Section 15 of the 1979 and 1999 Constitutions respectively deal with the political objectives of the state. This section needs to be read in conjunction with the provision of Section 14, which provides for Nigeria to be based on the principle of democracy and social justice. The Constitution provides that Sovereignty of Nigeria belong to the people of Nigeria (Section 14(a) 1999 Constitution of Nigeria), male and female alike. It is from the people of Nigeria, (male and female) that the government through the Constitution derives all its powers and authority to rule. The Section went further to provide that the security and welfare of the people shall be the primary purpose of Government (Section 14(b) 1999 Constitution of Nigeria) and that the participation by the people in their government shall be ensured in accordance with the provisions of the Constitution (Section 14(c) 1999 Constitution of Nigeria).

Similarly, Article 13 of the African Charter on Human and People's Rights (1980) provides for the right of the citizen to participate in the government of his country either directly or through the freely chosen representative in accordance with the law. Nigeria ratified and adopted the provisions of this Charter; the country even went further to domesticate the provisions of the Charter in its Constitution (Section 12 1999 Constitution of Nigeria).

Although political right of women are also asserted in various other international and regional instruments such as the Women's Convention(1979), the Universal Declaration of Human Rights, Beijing Declaration, the Protocol to the Africa Charter(2003) itself on Women's rights, the

International Covenant on Civil and Political Rights (Section 12 1999 Constitution of Nigeria) etc, Nigeria was noted to have adopted and even ratified some of these instruments, but they have not been domesticated in the local laws. As such, they do not carry the same effect with the African Charter and other Local legislations such as the Constitution. For this reason and for the purpose of this paper however, the legal synthesis will be limited to the Constitution of the Federal Republic of Nigeria and the relevant provisions of the African Charter.

The 1999 Constitution and other statutory provisions provide for equal opportunity for men and women without discrimination to participate in the political affairs of the nation. Despite these provisions relating to equality of men and women in political affairs of the nation, the legislative and executive arms of government are still dominated by men. The political participation of women has also been on the decline (Imam Ayesha, 1993) compared to what it used to be in the pre-colonial Nigeria. The consideration of the entire political situation is necessary, if one must examine the political status of the Nigerian women in political affairs of the country. This is because 29 out of 50 years of the nation's post colonial period were under various military regimes which are globally acclaimed as male dominated (Oby Nwakwo, 2012).

### **Political Rights of Women under the Military Regime**

Right from the time Nigerian gained independence in 1960, the longer part of the period (about twenty nine years) has been governed under military rule. This accounted for the decline of the involvement of women in political activities. The military do not have female members; hence they do not see any reason for the appointment of the female to their cabinet. The uninterrupted military rule from 1966 to 1979 with just a brief period of civil rule between 1979 and 1983 only resulted in the exclusion of women in political arena and the decision making of the country. (Olateru Olagbegi and Afolabi Akinyode, 2007) and Nigerian women were not in the hierarchy of the some military ruling council, and therefore could not be part of members of the highest legislative and executive body which was combined during the military rule (Ezeilo Joy,2001). The same experience was witnessed at the state level. The only exception was between 1983-85 during the regime of General Muhamadu Buhari who directed that at least one woman should be appointed in the executive council of each state. All states complied to the extent that some states had 2 or 3 in their cabinet (Nwakwo Obi, 2010 and Nigerian Women, 2012) in the early 1990s, during the Babangida administration, which at some period of his nine- year rule appointed a few women Deputy Governors; Alhaja Lateefat Okunnu of Lagos state and Mrs Pamela Sadauki of Kaduna state. Also General Sanni Abacha had a number of female Ministers at various times of his administration. These include chief (Mrs) Onikepo Akande and Ambassador Judith Attah (Nwakwo Obi, 2012). Furthermore, during the military administration of General Abdulsalam Abubakar, there were only two women at the Federal cabinet , Chief (Mrs) Onikepo Akande as Minister for commerce and Dr Laraba Gambo Abdullahi who served as Minister of Women affairs otherwise the political landscape of Nigeria during the military period featured a total male dominance (News Watch,2000). According to Joy Ezeilo, out of 361 males mandated to draft a new Constitution during the Abacha regime, only 8 were females. She however opined that this is better than the Obasanjo regime in 1978 which did not appoint any woman among 40 wise men charged with the responsibility of drafting a new Constitution (Ezeilo Joy, 2001). That women were not adequately represented at the helm of affairs in the successive military administrations of Nigeria, may be due to the fact that there were few women found in the military profession. The consequence of this is that major policy decision of the country is taken without female representation, even if the decisions and policies directly affect women (Yusuf Bilikisu, 1993).

### **Political Rights of Women under the Civilian Regime**

Women have not been adequately compensated in the area of politics despite their supports for various political parties and organizations. It was on record that out of 36 members of post independence senate, women occupied only 1 seat which was occupied by Mrs Wuraola Esan. By this, she became the first female member of the Federal Cabinet. There was no woman representation out of the 32 members of post independence House of representative and neither the Federal government nor the 3 Regional governments had woman in their cabinet (Nwakwo Obi, 2012). In 1961 general election, 2 women, Margret Ekpo and Janet Mokolu won seats to the Eastern House of Assembly, the third; Mrs Ekpo Young won through by-laws into the Eastern House of Assembly in 1963. In 1964, Mrs Benice Kerry was nominated by the newly created Mid- Western Region to join Mrs Wuraola Esan. In reaction to the exclusion of women in politics and decision making, 5 women were appointed to the constituent Assembly out of 250 members and their major achievement was the inclusion of the non-discriminatory clause in the 1979 Constitution. At this period, women in the north were still denied franchise, hence prominent political figure like Hajia Gambo Sawaba could not vote and be voted for until 1979(Nigerian women, 2012).

In 1979 general election (2<sup>nd</sup> Republic), no woman contested for the post of president and governor. 4 however contested for senate and none was elected out of 45 members. At the House of Representative, there were 3 members out of 450. There were 5 women in the various Houses of Assembly all over the Federation. There were also 2 female Ministers, Chief (Mrs) Janet Akinrinade who was the Minister for Internal Affairs and Mrs Adenike Egun Oyagbola, the Minister for National Planning. The period also witnessed the appointment of one female Permanent Secretary, Mrs Francisca Yetunde Emmanuel, first in the Federal Ministry of Establishment and later at the Federal Ministry of Health (Nigerian women, 2012). Most state also had at least one Commissioner.

The 1983 general election (Third Republic) women did not get commensurate number of seats in position of responsibilities (News Watch,2000). The period witnessed one female of the 45 members of the Senate, Ms Franca Afegbua, and out of three hundred and sixty members (360) of the House of Representative, only eight (8) were female (Shetima Kola,1993). The period was short lived as it lasted for only 3 months.

The Interim government, which was headed by Chief Earnest Shonekan had only one woman, Otunba Kuforiji Olubi, out of 32 members. The period also witnessed the appointment of two women to the Federal cabinet, Mrs Mobolaji Osomo and Mrs Ada Adogu who were appointed as Minister and junior Minister of Establishment and Agricultural respectively. (Nwakwo Obi, 2012)

According to Bisi Olateru- Olagbegi and Biola Akinyode, the 1999/2003 elections, (4<sup>th</sup> Republic) witnessed only 1 female speaker out of 36, representing 2.7% of the total member. Also there was only 1 female Deputy Governor out of 36, equally representing 2.7%. At the local government level, out of 774 chairpersons, there were only a female representing 1.2% and out of 8810 councilors, only 143 were female representing 1.2%. At the Senate level, out of 109 members only 3 were female (Joy Ezeilo has it to be 2) representing 1.2%, while in the House of Representative, out of 360 members, only 13 were female (joy Ezeilo has to be 12) ( Olateru Olagbegi, Afolabi Akinyode, Ezeilo Joy, 2001 and Akande Jadesola,1999) The government of President Obasanjo only tried to redress this position by appointing 9 women as Ministers and advisers out of the total of 44 appointed, giving the women a total of 22.5% of all the appointments of the Federal Government in 1999/2003 term (Olateru Olagbegi, Afolabi Akinyode, Ezeilo Joy, 2001 and Akande Jadesola). According to Joy Ezeilo, the list of Ministers

shows that less than 10% of them were women, while less than 5% were appointed as Special Advisers or Assistants. In all, only 10% of women were in power or occupy decision-making positions in the country (Ezeilo Joy,2001). At the states Houses of Assembly, only 31 women were elected into the state Houses of Assembly in 36 states of the Federation, and out of 38 leaders of Legislative Houses in the country, only one was a female, she was said to be the first woman to occupy such a position (Ezeilo Joy,2001). Therefore out of all the total 11,881 elective positions, only 631 women contested and only 181 won. This represents 1.62% in a country where women constitute almost half of its total population (Ezeilo Joy,2001). Although there was an increase in the rate of participation of women in politics at this period, the increase was only noticeable in the appointive position as many who contested never elected (Arowolo Dare,2010).

In 2003 general election (5<sup>th</sup> Republic), there was a slight increase in the number of women in elective positions. This may however be due to the fact that there were more political parties registered at that period (The total number of registered parties were 28 in number). There were also more women aspirants because the political parties decided to waive the payment of registration levies for women political aspirants. Despite this, the number of women who sailed through the primaries was still very few. This resulted into election of lower number of women at political helms of affair in 2003 (Olateru – Olagbegi and Akinyode Afolabi, 2007).

Notwithstanding the above fact, the 2003 general election witnessed the election of two women Deputy Governors, Erelu - Obada of Osun State and Senator Kofoworola Burknor-Akerele(Olateru – Olagbegi and Akinyode Afolabi, 2007). The election also witnessed not only an increase in the number of women appointees, but also recorded women holding influential positions at the key ministries, like the Finance, Housing (Olateru – Olagbegi and Akinyode Afolabi,2007) and Education. Also at legislative house, out of one hundred and nine (109) members of Senate only 4 were female and out of three hundred and sixty (360) members of House of Representative, twenty-three (23) were female. This dispensation also witnessed a woman Deputy Governor, Speaker, Deputy Speakers and Commissioners at various state levels. The Fourth and Fifth Republics therefore showed some improvements over the previous dispensations.

The situation was not the same at the state and local government levels during Obasanjo's regime, because some states like Osun did not appoint any female Commissioner throughout the four-year term (Olateru – Olagbegi and Akinyode Afolabi, 2007). The effect of this is that a male Commissioner superintended even the Ministry of Women Affairs that was established for the purpose of boosting the welfare of women.

In 2007 general election, women did not perform significantly different from the 2003 elections. Considering the issue of governance, women are still far behind though support for women candidates was massive from various women group (2011 election how did it fair women).

In 2011 election, the total number of women in political offices in the country is 8%. It was also on record that there were 10,000 male candidates across the political parties, representing 90.9% and 909 female candidates, representing 9.1% (agora.nigeriaelection.com, 2007).Therefore, it can be argued that the number of women in politics and policymaking position today falls short of expectation consideration their numerical strength in the state and it may be impossible for women to achieve the Millennium Development Goal (MDG) if concrete action is not taken.

Note that it is generally accepted that no matter the percentage of women in the political activities of the country today, they are still under represented when compare with the percentage of their population. Women have however advanced various reasons that contributed to the non-

representation or under representation of women in the policy and decision making of the country.

### **Challenges Facing Women Participation in Politics**

The under representation of women in Nigeria today is not without certain socio-cultural, religious and legal factors. These factors therefore constitute impediments to women to actively participate in politics.

Culturally, the various customary sayings like “Women should be seen and not heard”, “a woman’s place is in the home” etc., sometimes inhibit the participation of women in politics. To these sayings, women activists in both Pre colonial and Post colonial periods have over the years sought for the right to be seen and heard while insisting that a woman’s place is both in the home and in politics, where major decisions concerning the policy of the government are made (Yusuf Bilikisu, 1993). As a result of this, determined and articulate women have surfaced at different times in history to rise above these societal’ limitations and emerged as leaders (Yusuf Bilikisu, 1993) and holders of political posts at their various times. For instance, in the pre and postcolonial periods, there were the Queen Amina of Zazzau, Madam Tinubu of Lagos, Mrs. Olufunmilayo Ransome Kuti, Margaret Ekpo, Hajia Gambo Sawaba respectively.

In the present Nigerian society, several women have equally distinguished themselves in their various fields and political offices. Alhaja Lateefat Okunnu, of Ogun State, Erelu - Obada of Osun State and many other women had become Deputy Governors of their States. Despite these distinctions the participation of women in politics and decision making in the present day Nigeria is still on the decline. This therefore accounts for the forceful and militant involvement of few women found in the field of politics and decision making in Nigeria, such as Senator Ita Giwa.

Legally, Jadesola Akande was of the opinion that the Constitution of Nigeria, which is supposed to protect women, is responsible for political inequalities between the two genders. According to her, the Constitution is gender insensitive and therefore violates the rights and privileges of women (News Watch, 2000). She claimed that although women constitute 49.6% of the total population (Census result, 2007) and were responsible for 27 million votes during the 1999/2003 elections, yet women have no specific rights under the Nigerian Constitution. According to her Section 42 of the 1999 Constitution, which prohibited discrimination on the ground of sex, was a disadvantage to women in Nigeria (News Watch, 2000).

Other factors include lack of education coupled with the dwindling economic crises all over the whole world. As a result of huge economic crisis in the country, a lot of parents could not afford to send their children to school and the female children are the ones affected most. This is because, many a time they are withdrawn from the school by their parents to hawk for the survival of their male counterparts (Okoye Festus, 1993 and Ogwu Joy). The society therefore attributed the blame for discrimination against women’s education to parents who prefer to invest in boy’s education in order to have greater claim to their income (Bozimo Gladys, 2000). The effect of this is that female children are not readily made available in times of need for politics and decision making.

In some parts of the country, especially, in the Northern and parts of Southern states, girl child education is interrupted for marriage. This is so even at the time such a child does not understand what marriage is. A girl of this circumstance cannot be ready to be involved in today’s politics when especially the minimum educational qualification is secondary school leaving certificate.

In some other parts, especially in the Eastern states, the level of education of a girl determines the amount of the bride price to be paid by the groom's family. A girl under this situation has been priced and sold like a commodity and can no longer claim any right to participate in politics and decision making of her country. Even though she is educated to the minimum level required by the Constitution, the fact that the husband has paid a huge amount of money as bride price, such a husband may not be ready to release her to participate in politics because of the circumstances which surrounded the marriage. The above is irrespective of the fact that the has put a ceiling on the amount of money that could be received as bride price, these laws are just normative and cannot be implemented, because the parents of the girl child are wallowing in poverty (Bozimo Gladys,2000). This in effect contributes majorly to the low participation of women in politics, especially.

Lack of economic power has been stated to be another factor affecting participation of women in politics. Women cannot afford the kind of huge amount of money required for Nigerian politics unlike their male counterparts who could raise money to finance electoral processes. Furthermore, Nigeria is a country where money rather than merits determines who becomes what.

Apart from this, the style of playing politics in Nigeria hindered the involvement of women. politics is practiced in such a manner that it is very difficult for women to cope with as most of their deals are struck at odd hours and women don't feel comfortable and safe to stay till the midnight to participate in such deals (Akande Jadesola,1999). Thus the traditional role of women as mothers and wives hinder their participation in politics, as the society does not permit them to be seen in most of the places and time where the meetings are to be held (Akande Jadesola, 1999).

It has been argued that the fact that there is a slight imbalance of power at both national and international levels, which is witnessed by the number of women who are now heads of their countries, a situation which show that women are finally being recognized as equal and as leaders, has not helped women" (Kernal Dervis, 2007). To date, there are not less than 12 women heads of state or government in countries on every continent, the last of them being Michelle Bachelet who was sworn in as the President of Chile on Saturday 12<sup>th</sup> March, 2001(Kernal Dervis, 2007). Despite this fact, it is observed that till date, women are still largely under represented in parliament, especially in Nigeria (Kernal Dervis, 2007).

According to Mrs. Ciroma, no Commonwealth country was reported to have achieved 30% of Women Parliament, but by 2000, seven countries achieved 20% - 30% of women in Parliament with South Africa rendering 30%. Today on the African Continent, there is only one woman President, Hellen John Sir Leaf, the President of Liberia, equally, the Vice Presidents of Burundi, Uganda, and South Africa are all women.(Guardian News paper, 2006) Despite the above, progress towards the goal gender equality and women's empowerment is still a pipe dream, as the majority of drop out in schools are still girls and women. Women therefore constitute the majority of illiterate globally, and this accounts for their absence in parliament (Kernal Dervis, 2007). Ultimately, if women do not have power equal to men, they will forever be lagging behind (Kernal Dervis, 2007).

Note that Nigerian women stand on the same footing with their male gender if given the opportunity to perform and display their talents. It is however seems that the political game of this country has been exclusively reserved for men. This has led to the conclusion that Nigerian women are not politically active or less politically active than their male gender (Okoye Festus, 1993). It is also believed that the male profit from this domination of women, and will therefore

wish that the status quo be maintained. This explains why no serious attention is paid to reasons why there are few women in Nigerian politics (Okoye Festus, 1993). Women should therefore be encouraged and enlightened to appreciate the fact that the game of politics is not a prerogative of men, they should therefore not accept choiceless life (Philomeno Ozon, 2000). This is because, without equal participation of women in political life, all members of the society will suffer, as “*progress for women is progress for all*” (Kermal Dervis, 2007). Furthermore, it may be stated that the present Millennium Development Goal agitated by the government may not be achieved if half of the total population is excluded from the cabinet for lack of proper and sound education.

## Conclusion

This paper assessed the involvement of women in politics in Nigeria. It was revealed that from pre-colonial period to post-colonial period, there have been various degrees of women involvement and participation in politics. It was also discovered that women were actively involved in politics in pre-colonial period, this was however curtailed in the colonial period. Although there was an improvement in women participation in politics in Post- Colonial period, however, this improvement is not commensurate to the total number of women in Nigeria. It was also discovered that there is nothing in the constitution which exclude women from participating in politics yet they are grossly under represented in politics and decision making. Women should therefore endeavour to obtain what it takes to avoid getting to the corridor of power through the back door, though evidence revealed that scores of women in Nigeria are well educated now and are capable holding political offices like their male counterparts. The paper further examined various challenges affecting the involvement of women in politics. In view of thee challenges, the paper charges women to learn to fight a common cause and in the same vein, government is urged to implement the protective legislations and soften the ground for parents to give solid education to their female children and wards, to make them readily available for participation in politics. According to the former Minister of Women Affairs, Mrs. Maryam Ciroma, “*The equitable participation of women in decision making at all levels is the best approach to women empowerment. This is not only a demand for simple justice and democracy, but can be used as a necessary condition for women’s interest to be taken into account*” (Guardian News Paper, 2006).

Finally, in view of the change in the global political economy, efforts should be intensified to sensitize women to be actively involved in politics and decision making. Concrete measure should also be taken to implement the laws in respect of political rights of women in Nigeria.

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## **Global Studies and Political Economy**

## **The Challenge of Managing Democratic Elections in Africa – Making Election Management Bodies (EMBs) Work as Project Oriented Organizations (POOs)**

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*Many African Election Management Bodies (EMBs) are finding it necessary to implement better election management practices. This realization often comes as a result of frustrations in managing successful elections. Recent electoral challenges in Nigeria are a clear testimony to electoral establishments needs to embrace project management best practices. Political turbulent in Tanzania, Ivory Coast, Uganda, Egypt and others are partly due to challenges of managing election activities – managing these as programmes and projects. This paper raises issues of project management best practices which are relevant in electoral processes. It provides help to those who are involved in managing African Election Management Bodies (EMBs) to learn how to create an environment that can help avoid these challenges/or failures. When electoral activities/programmes challenges create a focus on the need to change the way election programmes are managed, people soon learn that this change profoundly affects the entire electoral establishment. Successful elections require participation from many parts of the EMB; the development of successful election management practices cannot be accomplished in one or two departments alone. Skills in practices require a coordinated effort involving all departments in an electoral establishment. The change must be systematic and system wide. This paper explores best practices in political election management through the domain of strategic project management best practices. The paper examines the need for project management in electoral organizations and the development of new, project-based EMBs; it also examines one of the components of successful environment: linking electoral projects to organizational strategy; it examines upper-management practices of EMBs that thwart the successful development of managing electoral projects; it further addresses the problem of organizing the electoral project management effort; it covers the importance of information in the successful electoral project management environment; furthermore, the paper discusses electoral project managers selection and development; the basic principles of the EMB as the learning organization are also addressed; and finally examples of how to implement the needed changes in managing EMBs are given.*

### **INTRODUCTION**

Flawed general elections have become a trademark of most African countries. Countries (e.g., Nigeria, Kenya, Uganda, Democratic Republic of Congo, Ivory Coast, Zimbabwe, to mention a few) have gone through traumatic experiences characterized by pre and post-electoral violence following disputed presidential and parliamentary elections (Reynolds 2009, Enabulele and Ewere 2010). The consequences of the violence in most situations have seen the loss of lives, the displacement of people in some countries (for example in Kenya and Ivory Coast), destruction of the livelihoods of millions of people, and wanton destruction of property and infrastructure, worth billions of dollars (This, in most situations has led to the further abuse of human rights and has further diminished trust and confidence in the political leadership and state security agents. The tensions and wave of violence have ruptured the social fabric that had held the nations together and ethnic relations in some countries, have become explosive (for example in Kenya and Ivory Coast) (Reynolds 2009, Enabulele and Ewere 2010). This ugly face of elections in Africa, which is described by Luqman (2009) as ‘*an exercise in futility*’ has to a number of countries led to the

collapse of democratization. The majority of countries are thus crying for the totality of the electoral cycle.

Discussing what could be described as ‘*best practices in electoral practices*’ and using Nigerian experience as a case study, Luqman (2009) argues that free, fair and credible elections are not just about events that take place on election day alone. He argues that they relate to the totality of the electoral cycle and consist of important issues (good practices) as indicated in Figure 1. Non of these electoral cycle good practices are realised in most of African countries.

- Provision of credible and updated voters’ register(#)
- A functioning party system
- Nomination of candidates system
- Conducting of a violent free party campaigns(#)
- Adequate provision of voting materials(#)
- Appropriate actual conduct of the voting(#)
- Speedy counting and declaration of results and post-election activities (including elections petitions and the fair and speedy resolution of all litigations emerging from the conduct of the election (#)

Practices marked with (#) are within EMBs management compass

### **Figure 1 Total electoral cycle good practices (TECGPs)**

Source: Luqman (2009)

In most African countries the electoral cycle good practices listed in Box 1, are expected to be overseen by independent electoral institutions [specifically those identified with (#)] – referred to in this paper as Election Management Bodies (EMBs) (Mozaffar 2002). This requirement, places the electoral institution at a strategic position in a respective country’s democratization process, it remains the principal body charged with the responsibility of managing the electoral process. In view of this, argues Luqman (2009), the success of any elections and electoral process is directly linked to the competency of the electoral institution.

The controversies and disputes surrounding elections in various countries in Africa [e.g., Kenya, Uganda, Zimbabwe, Nigeria, Ivory Coast, Tanzania (the Zanzibar turbulences), Malawi, Democratic Republic of Congo) are primarily caused by inabilities of EMBs to embrace the TECGPs (Bratton and van de Walle 1997; McMahon 1994).

The inability of African Election Management Bodies (EMBs) to embrace TECGPs is described by Enabulele and Ewere (2010) using an interesting metaphor of a *shepherd* and a *wolf* – ‘*When the shepherd becomes the wolf.*’ Focusing on Nigeria turbulences, they argue that there is overwhelming evidence from the courts in Nigeria that the Nigeria EMB (the Independent National Electoral Commission) openly descended into the arena of political rivalry and took sides with its preferred candidates in intra party contests and its preferred political party in inter party contests, and hence became blinded by its desire to ensure victory for such candidates at all cost and against all known democratic values it was established by law to nurture.

The Nigerian experience on EMB practice seems to be a mirror image of what has happened in DRC, Kenya, Uganda, Ivory Coast, just to mention a few. Most of African Election Management Bodies (EMBs) have since abandoned the tenets of TECGPs and instead crossed over to the side of illegality and immorality. Searching for a solution to this sorry state, Enabulele and Ewere (2010) use the Nigerian case to provide a solution to Africa. They cry for the need to redeem the African EMBs from the iron claws that hold them bound and thus redeem electoral processes in order to install the needed representative democracy across the African continent. The central question to be asked therefore is: How do we redeem the African EMBs? The next sections of this paper provide an answer to this question.

## **AFRICAN ELECTION MANAGEMENT BODIES (EMBs) – THE REDEEMING ROAD**

In order to understand the path towards redeeming the African EMBs it is fundamental to reflect on the characteristics of typical tasks (e.g., conducting voter education, conducting elections, voting process close-out). The typical bulk of EMBs tasks are projects. They meet characteristics of projects: *these tasks are unique, transient endeavours to achieve a desired outcome* [Association for Project Management (APM) 2006]. Furthermore, these tasks are usually *temporary endeavours undertaken to create unique products or services, or results* [Project Management Institute (PMI) 2004].

Since the typical bulk of African EMBs tasks fall within what the Association for Project Management and Project Management Institute define as projects and the fact that a typical African EMB requires: *speed and voters responsiveness for success; to develop new processes or services regularly which require inputs from diverse areas of specialized knowledge; the capability to manage the rapid expansion of technological possibilities in almost every area of its set-up in order to avoid destabilization of its structure; and to facilitate an environment which will help its senior managers to feel much confident in their understanding of and control over a great many of the tasks going on within*, it is fundamental that they should be structured and managed as project oriented organizations (POOs) (Dinsmore 1998; Levine 1998; Williams 1997).

There are strong indications to suggest that the turbulents experienced by various countries during elections as discussed above, have been caused partly by a dominant situation of managing EMBs as POOs by default (functioning in a non project environment). By moving away from the default environment, most of EMBs will be able to embrace TECGPs and consequently contribute positively to the findings of Edigheji (2006) which Luqman (2009) referred to as ***‘institutional conditionality necessary for a credible electoral process’***. These conditionalities include: *an independent judiciary; an independent, competent, credible and non-partisan electoral body; and a developed system of political parties*. The second conditionality is primarily within EMB reach through being structured and functioning as a fully fledged POO. The question to be advanced therefore is: ***What should EMBs do to function as fully fledged POOs?***

## **EMBs – FROM A NON PROJECT ENVIRONMENT TO POO –WHAT TO DO**

The only way EMBs can embrace Edigheji’s (2006) second conditionality for a credible electoral process is to move away from current environment (non-project environment/default environment) to one in which projects are organized and used to accomplish special tasks to a full-fledged project-oriented organization. According to Meredith and Mantel (2010), this fundamental move will present senior EMBs management with an extraordinarily difficult transition, but is doable. They further argue that the process is time consuming and even when the required resources are available and senior management is fully committed to the transition, it is

still an arduous process. Kotter (1997) provides a step by step process that must be successfully completed if the change is to be accomplished. For lack of space and brevity a brief account of the process from Kotter (1997), Graham and Englund (2004) and Cleland and Ireland (2007) is articulated in this paper.

Based on proven practices, Graham and Englund (2004), Cleland and Ireland (2007) and Kotter (1997) provide six pieces of the successful-project picture:

**(a) EMBs Change to Project-Based Organisations (POOs)**

Graham and Englund (2004) argue that changing to a POO requires change in behaviour of the EMB upper managers and event/project managers. They strongly insist that an EMB must also be team based; to create such an organization, upper managers and project managers must themselves work as a team.

One of the challenges facing EMBs and specifically the executives is the need to have an appropriate organization structure. The organization structure which a hybrid of traditional structures (functional and pure matrix). An organizational structure with optimum bureaucracy – *the organic organization structure*. With an organic organization, everyone takes responsibility for the success of the whole. According to Graham and Englund (2004), the basic notion of regulating relations among employees by separating them into specific predefined functions that are determined by problems rather than by structure.

Moving to a POO will present unique challenges to EMBs upper managers, these include:

- ***The leader has little or no 'position power'***: The position power inherent in functional organizations has to change as the POO is introduced. Upper managers need to develop project managers and other senior personnel so that they can lead based on influence rather than positional authority.
- ***Conflicts arise over team member time and resource requirements***: Upper managers should have a good plan and work on priorities. Internal market pricing should be used to allocate scarce resources – individuals or organizations pay with internal charge accounts for services they find valuable. Details of this approach are given elsewhere [McGrath (1996), Englund, Graham and Dinsmore (2003)].
- ***Organizational boundaries are unclear***: Managing of electoral processes often requires cooperation among various EMB units. If people see evidence that cooperation is not valued, then achieving cooperation is almost impossible. Upper managers need to create a structure where cooperation is rewarded. This is discussed in detail elsewhere [McGrath (1996)].
- ***Time and organizational pressures abound***: Upper management should be ready to support the best practices that allow reduction in cycle time. This includes developing a core team system and facilitating communication with customers.
- ***Team members do not know one another***: Effective project teams require unprecedented levels of trust and openness. The climate of trust and openness starts at the top. McGrath (1996), Englund, Graham and Dinsmore (2003) provide more details on this aspect.
- ***Team members are independent and self-motivated***: Because team members may not even work for the EMB, lead project managers need to develop influence skills, and upper management should support that process [McGrath (1996), Englund, Graham and Dinsmore (2003)].

All the above challenges require that EMBs upper managers' work together to develop a process aimed at encouraging new types of behaviour. The shift to a POO requires a concerted effort from all EMB upper managers.

**(b) Emphasize the Link Between Strategy and Projects**

Although electoral processes are central to any EMB practice, in most of EMBs projects/tasks they work on seem unlinked to a coherent strategy and the upper managers seem to be unaware of the total number and scope of projects being undertaken. As a result some employees feel they are working at cross purposes, on too many unneeded projects, and on too many projects generally. According Graham and Englund (2004), giving projects a strategic emphasis is the first move towards contributing to creating an environment for successful projects.

Project leaders need to know that they are not alone – *that others require resources too*. The spirit of cooperation should be encouraged and it is more likely to be achieved if they feel they are part of a larger project- *part of the project team that is implementing a strategy*. They will be more cooperative with other projects when they see the needs of their project in the light of the needs of the entire EMB (Graham and Englund 2004).

Dealing with the problem of sub-optimization – sub-optimization occurs when individual lead project managers try to optimize their own projects by hoarding resources and otherwise acting independently of all other projects, hence the need for cooperation and communication in order to avoid this problem. Such behaviour when left to flourish in an EMB may make one project more successful, but usually at the expense of others.

There are three steps to fight against sub-optimization by EMB upper management (Graham and Englund 2004):

- (a) To make sure that all participants understand the total system. They need to know the total number of projects in the system, the goal of each project, the goal of the system, and the other participants.
- (b) Participants should understand that the common resource pool will be managed by the upper management committee or programme management office. This means that upper managers should allocate resources based on a rational assessment of what is best for the entire EMB.
- (c) In order to make the above work, there needs to be a means of communication among system participants, one that allows open and rapid communication between and within all levels of the PM system. All lead project managers/task leaders need to know what other lead project managers are doing so they can know what effect their decisions have on others and on the system as a whole. More details are given in McGrath (1996) and Englund, Graham and Dinsmore (2003).

In summary, upper management in EMBs should make sure that they optimize their involvement in every project and contribute towards project success. They need to make sure that systems are developed that support multiple project management; and various such systems should include motivating interdepartmental cooperation and developing project sponsorship.

**(c) Understand the EMB Upper Management Influence**

There are a number of common mistakes which EMBs make as the assigned projects progress. These mistakes (old habits) have potential to contribute to premature deaths of EMBs in the new project environment and they have to be changed. In many ways, dropping old habits is more difficult than learning new ones, but the change is necessary to create a successful project management environment (Graham and Englund 2004).

One old problem within EMBs is an attempt by managers to schedule too many projects at one time. In this situation everyone wants their project done *now!* Of course, there is never enough capacity in the organization to do all projects simultaneously. Nevertheless, there is usually pressure to run as many projects as possible at the same time, doing them in parallel. The usual management response to this problem according to Graham and Englund (2004) is to spread people across many projects and tell them that '*multitasking is the way we do things here*' and that '*everybody knows that is the best way to get the most work done.*'

There is enough evidence (Meredith and Mantel 2010) to suggest that switching projects is a very complicated task, so the time lost in project switching is probably 40%, meaning that two days per week per person are lost on this practice. Switching from one project to another project requires a very complex adjustment of working parameters due to the following attributes of projects: **time line and due date differences** (shifting requires a reset in the mental time horizon); **project goals** (internalization of project goals drives the behaviour of project team members); **phase of the project** (as project progresses, the contents of activities are radically different from the beginning to the end of a project) ; **discipline involved** (team members become accustomed to working with certain set of organizational discipline on the project team); **team members involved** (getting used to certain individuals with a certain set of attributes); **lead project managers (PMs)** (different lead PMs have different styles of management) ; and **time passes** (spending time reviewing past decisions in order to understand what is going on).

*What can be done?* Unless different PMs are used for different projects, it is important to switch from doing projects in parallel to doing them in series. The field of concurrent engineering, advocates doing many activities in parallel to shorten product or service life cycles. This is acceptable if different PMs do the activities and in different functional areas. The problem arises if the same PM or PMs try to do tasks in parallel. With different PMs, it still falls on the programme manager to task switch. Keep PMs doing project work focused as much as possible on a single project.

*The need to plan:* In many EMBs, there is a general lack of appreciation of the importance of planning for every project identified. Upper managers do not seem to understand its necessity and thus do not usually allow enough time for proper planning. Upper managers need to know that planning is a critical element that decreases costs and total project time while increasing deliverable quality. Hamel and Prahalad (1994) and Wheelwright (1996) provide more direction on challenges and best practices.

#### **(d) Develop a Core Team Process**

According to Graham and Englund (2004), an important function of upper management in a POO is supporting project teams by designing the organization to support project management (PM). They strongly suggest that this can be done by either redesigning the organization to emphasize projects or integrating projects into the current organization. Either way, the upper management team crucially should define the project lead PM's job, degree of authority and autonomy, and relationship to both the home department of the project and other departments in the EMB. Upper management should also play key roles in specifying communication channels, methods of conflict resolution between the project and the rest of the EMB, and how project management attention should be directed – this is the relative priorities of outcome, cost and schedule.

Issues of grouping people in organizations, reporting relationships, delegation of authority, empowerment, the criteria by which people are grouped together, the rules and procedures that determine what people in various groups do and pay attention to, and the patterns of interactions fostered by delegation, grouping, rules, and procedures, are considered to be pillars of



organizational structure. These take place between two clear points – one extreme influenced by *centralization* and the other point *decentralization*.

The author strongly recommends decentralization in EMBs – where middle level PMs and junior PMs are empowered to free senior PMs for strategic planning. The task of decentralization becomes more challenging in EMBs due to the extent of activities like: more decisions are made at lower levels in the hierarchy; the number of important decisions made at lower level increases; more functions are affected by decisions made at lower levels; and fewer decisions made at lower levels must be checked with senior higher management (Senior PMs).

Another possibility is to assess the feasibility of a matrix or projectized (pure) structure. A matrix as described in detail elsewhere (Graham and Englund 2004) is a combination of functional and projectized structure where lead PMs have more autonomy and less autonomy respectively. A matrix structure requires close cooperation of two sides to meet organization objectives. In reality, Graham and Englund (2004) argue that conflicts often arise over the best use of resources, which too often must be resolved on the fly by the individual in the middle of the matrix who reports to two bosses in two organizations. The need for EMB executives to debate issues before deciding on what to adopt and how far to adjust from a typical structure to an appropriate structure (hybrid).

It is important to note that ultimately EMB upper managers need to prioritize their time and craft the appropriate organization structure. The best tools they have to make it happen are to set high ideals, appreciate strengths that exist in the EMB, and share the vision.

#### **(e) Develop a Project Management Information System**

Traditionally, especially before the advent of modern computers, control of information was power. In EMBs, a few Senior managers had the total picture of projects in the EMB's books, kept it to themselves, and told others what to do. Middle and junior PMs were not to make decisions; they did not know the possible effect on the total system with the EMB. Instead they followed orders, and the integrating mechanism ensured that the totality of actions resulted in a final EMB service. In this situation (Graham and Englund 2004), the only information an individual PM needs is about the individual job. But this can work only in repeat work which is primarily not the case in most PM work as every project is unique.

In most projects, sharing of information is power. When a team of PMs is doing something new (for example), individual PMs should be empowered to make decisions, and they should be informed decisions. People making decisions need to know the decisions others have made, and know the effect of their decisions on others on the project and on other projects within the EMB. EMBs project managers (especially in countries where elections abnormally bring a tense environment) tend to make mistakes in times of anxiety, but with sufficient time and information, they can usually make good decisions. Typically, projects are tight on time; if information is in short supply as well, good decision making is unlikely. Even without much time, having sufficient and timely information can hold down the anxiety.

The issue for EMB principals (upper managers) is thus to ensure that PMs and administrative staff know and understand the uses for the information in the system. But if one of the uses is resource allocation, which ultimately reflects on project management success, there will likely be much fudging of the input data to make each project look as if it needs many more resources. The EMB upper managers need to set up a system such that it is in everyone's best interest to supply accurate information.

All EMB upper managers need to be conscious about the impact of information on the ebb and flow of project management work. Timing is everything. There are times when magnitude may be down – progress is slower than expected – but the vector is still going in the right direction – the project team is still together and working towards the project goal. That is okay and may be the natural energy of the group for that moment, because the right work is happening, albeit slowly. A lead project PM in an EMB could mess things up if he or she pushed too hard at that time, so the advice is to *go with the flow*.

When determining the proper components of a project management information system (PMIS), first evaluate whom it will serve. EMB upper managers need the information on all projects regarding all the parameters which will have effect on project costs. PMIS software and hints for developing a PMIS are discussed in detail elsewhere (Graham and Englund 2004).

**(f) Develop a Plan for Project Manager Selection and Development**

Most people become EMB project managers (EMBPMs) and remain technicians. The usual path to the job is through for example expertise in human resource (HR), commerce, sociology, law, or any other technical knowledge base. When EMBs are recruiting PMs, emphasis is on technical knowledge (in HR, law, sociology, etc.) base and technical knowledge post training (coaching) in practice seem to produce a person characterized with technical arrogance – *a technical arrogant PM (TAPM)* as indicated in Figure 2(i).

$$\text{(i) Technical Arrogant PM} = \text{KB}(\text{T}_{\text{NPM}}) + \text{PT}(\text{T}_{\text{NPM}})$$

$$\text{(ii) Balanced PM} = \text{KB}(\text{T}_{\text{NPM}}) + \text{PT}(\text{T}_{\text{NPM}}) + \text{KB}(\text{P}_{\text{PM}})$$

**[KB = Knowledge base; T<sub>NPM</sub> = Non PM technical knowledge; PT = Practical training**

TAPMs are alive and well – or at least alive; many although conceal their feelings do not feel so good about themselves or the PM job they are doing especially when involved in major electoral projects. Most EMBPMs are put in charge of sophisticated electoral projects. However, the technical say HR part of a project is often the smallest and easiest part. The technical non PM [KB (T<sub>NPM</sub>) + P (T<sub>NPM</sub>)] success does not necessarily lead to project management success; it is necessary but not sufficient. EMB upper management needs to take the lead to put into place a system that selects and develops those people with the greatest potential to become balanced PMs [Figure 2(ii)].

Changing the would be PMs selection and development criteria is critical to the maturation process. It is important to aim for a balanced PM. A balanced PM [Figure 2(ii)] is an effective PM and is more than a brilliant non PM expert; there is enough evidence to suggest that technical non PM knowledge (T<sub>NPM</sub>) is not paramount to being a successful PM.

According to Rwelamila (2010), the most challenging risks for a EMBPM fall under the category of behavioral risks (voters' behavioral risks and other stakeholders' behavioral risks). This category of risks has enormous implications for affecting electoral projects. The EMBPM as a single point of responsibility has a central responsibility during project planning and control phases to communicate and negotiate with various project stakeholders as part of project

management responsibilities. While technical non-PM knowledge ( $T_{NPM}$ ) and skills are necessary to present requirements and they need more of the PM intelligent quotient (IQ), communication and negotiation requires the PM knowledge and skills in project social cultural issues – *the ability to listen, understand that various stakeholders have different attributes which need to be managed*. For a project PM to deal with PM issues, he or she needs to have more than IQ. He or she needs to have emotional intelligence (EI) or emotional quotient (EQ). EMB upper managers have a responsibility to establish internal systems or to use suitable external institutions to establish programmes which are entrusted with the responsibility of training recruited non-PMs to manage project social cultural issues and raising their levels of EI or EQ. By training professional non-PMs to manage project social cultural issues and raising levels of EI or EQ, EMBs will reduce the number of technical arrogant non-PMs and increase the number of balanced PMs. The non-PM selection and development process described above probably cannot happen without direction and support of EMB upper managers. A balanced PM initiative could be formed to develop and oversee the process. Perhaps it could be assigned to an existing unit/or department, but this is not recommended unless someone very knowledgeable about balanced quantity surveying/cost engineering is in that unit/or department. The recommended approach is for a balanced PM initiative to see that the programme is properly developed, implemented, and staffed to develop a cadre of balanced PMs.

## CONCLUSION

The history of democratization process in Africa has shown the strong relationship that exists between electoral processes and electoral management bodies (EMBs). That history has shown that non-project competent, partisan, bias and resource starved EMBs cannot midwife successfully important, highly delicate and complex issues like elections and electoral processes. The continent's history across a significant number of countries (e.g., Kenya, Nigeria, Uganda, Ivory Coast, DRC) is abound with instances where efforts of democratization have been on the altar of badly managed electoral processes.

There is a need for a paradigm shift on African EMBs, the need to reflect on the traditional EMB, which seem to function a POO by default. This framework makes most of the EMBs inefficient and unable to fulfill their mandates. Hence the need transform the majority EMBs from current environment (non-project environment/default environment) to one in which projects are organized and used to accomplish special tasks to a full-fledged project-oriented organization

The teamwork and cross-organizational cooperation necessary for an EMB to become a fully fledged POO are antithetical to the reality experienced in most organizations. For this reason, it is a good bet that the changes that are necessary to change EMBs into true POO will be quite incompatible with the organizational change. Even if systemic change are made in the EMB, the old ways where technical arrogant of PMs rule will still be just below the surface for many EMBs organizational generations. Sustained leadership is imperative.

Culture change of EMBs is an extremely long and complicated process. It means changing the way people construct their reality. People must experience the connection between new action and performance improvement on many different occasions and over a sustained period of time. The changes must be passed on from one generation to another, and this will probably have to happen several times before the organizational culture of African EMBs adjusts to the new reality.

By implementing the six fundamental issues discussed above, balanced project management will be seen as much more than just a set of approaches to manage electoral project successfully.

Balanced electoral PM practices become totally intertwined with democratic practices across the African continent such that project management and electoral oversight are seen as the same thing. This paper provides a challenge to each person within EMBs fraternity and within every country in Africa to adopt, adapt, and address the salient issues raised in this paper.

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## **Public Sector and Health Care Management**

## **Perception of Service Quality, Gender Differences and Students' Satisfaction in Higher Education in South Africa and Swaziland**

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*This study investigates predictors of students' satisfaction with their university by examining some of the criteria used by students. A survey instrument was completed by a random sample of 564 students from three universities in South Africa and Swaziland. Specifically, two research questions were investigated: are there gaps in students' perception of service quality; and are there gender differences in students' satisfaction? The findings show that the students identify significant gaps between perceived importance of service quality and the actual experience with actual experience being lower. Significant gender differences were also found in overall satisfaction with the female students significantly more satisfied overall with their university than the males. The implications for the universities on how they manage the overall students' experience were discussed and some suggestions for future studies articulated.*

### **INTRODUCTION**

Various studies have focused on the role of quality in higher education in order to become competitive in the global arena (Aldridge & Rowley 1998; Athiyaman 1997; Oldfield & Baron 2000; Moogan, Baron & Bainbridge 2001). Dynamic national, regional and global developments have compelled higher education to change rapidly and these modifications have received increasing attention during the last two decades. An outcome of this has demanded that all service encounters offered by institutions of higher education should be managed to enhance consumer perceived quality (Brochado, 2009). In addition, Mizikaci (2006) points out that new approaches and practices in management and industry that are in line with the needs and expectations of the community have appealed to the decision makers of higher education in response to the necessity for reforming the higher education system. It appears as if tertiary institutions across the globe are experiencing increasing market and financial pressures. The result has caused institutions of higher education to engage in more competitive educational practices that are based on quality assessment. Senthilkumar and Arulraj (2011) argue that, despite this acknowledgement, quality of higher education in general falls short of attaining the global excellence level. The purpose of this study is to investigate the predictors of students' satisfaction with their university, including the role that gender differences play. The study examines some of the criteria used by students (including service quality, their intention to stay or leave, the trust in the management of the institution, and their perception of the management's readiness to change) when choosing or evaluating tertiary institutions in South Africa and Swaziland.

#### ***Global Challenges in the tertiary education sector in Southern Africa***

During the past decade and a half, the world has seen a slow, but constant transition from the ideological confines of the post World War II structures to a more interdependent global society and economy, yet divided into the developed and developing worlds. The fall of Apartheid in



South Africa, and the subsequent emergence of Sub-Saharan Africa from its colonial past and gradual transition to democratic free market states, has created a new dynamic where the competition for resources and strategic interests are fierce.

According to Michael (2004), the main challenge for developing countries lies in the mobilisation and equipping of their human resources with knowledge to exploit the advantages of globalisation. In the case of South Africa, Badat (2003) states that transition occurs in a context of globalisation and economic growth and is increasingly dependent on knowledge and information of its high priests, globalisation and integration into the global economy. The challenges faced by higher education in South Africa is compounded through the integration of equity goals of national policy as a means of redressing inequalities of the inherited educational system. Kargbo (2000) acknowledges that, like in other developing countries, the African universities are a major element in development, at the apex of the educational system as a place for the pursuit and dissemination of knowledge and playing a pivotal role in the onward struggle for national development.

Higher education institutions in South Africa have experienced dramatic changes over the past few years. This includes their structuring, funding and student numbers. As a result of the governments' policy to transform higher education in South Africa and the challenges brought about by globalisation and internationalisation, higher education institutions are facing new challenges. More recently these challenges include various mergers and the transformation of *Technikons* into universities of technology. This transformation has not only brought about a change of status in these institutions, but also the mergers of intrinsically different institutions. The broadening of access to higher education in South Africa under the present government policy has also seen a growth in the number of applications to tertiary institutions (Bunting & Cloete, 2004). According to Cooper and Subotzky (2001), South Africa has experienced a “revolution” regarding the increase in proportion of black student enrolments in tertiary education where the majority have been white since the middle 1990s. This consequently calls for re-assessment of the needs of current students in higher education.

Tertiary education has experienced a dramatic decline in government subsidies and an increase in student fees in countries such as the United Kingdom and Australia (Soutar & Turner, 2002) that have similar educational systems to South Africa. Mutula (2001) states that the decrease in subsidies affects the quality of teaching and research and has led to overcrowding in many African universities, deteriorating physical facilities and a lack of resources for text books, educational materials, laboratory consumables and maintenance. South Africa is not an exception and class fees increase annually while government subsidies are similarly revised. The perceived quality has also had an effect on the choice of institution by eligible candidates. To effectively pursue this vital role, universities have to be provided with essential resources for improvement and upgrading of their infrastructure and to also enable them to attract highly skilled personnel for the purpose.

Elsewhere in Southern Africa, some important issues in higher education in Swaziland were highlighted by de Jager and Joubert (2007). In response to regional and global changes, developments and demands, Swaziland is transforming its educational system in higher institutions of learning. It continuously reviews its programmes to meet the demands of contemporary society but its efforts are hampered by shrinking funding, as increased funds are diverted to the funding of orphans and vulnerable children, as well as addressing the socio-economic development issues of HIV/AIDS, shrinking inward investments and the associated high unemployment and poverty issues (Joubert, Masilela & Langwenya, 2006). De Jager and du Plooy (2006) noted how the downward trend in the economic situation and the resultant decline

in public finances since the 1980's onwards has been further exacerbated by governments' inability to continue to meet the financial needs of higher education (HE), whereas a growing demand for access continued. The resultant higher educational constraints discussed are manifesting themselves in political upheavals that involve students. Related to this is the brain drain of the limited country's think tanks, which might continue to hamper the quality of education and hence, hinder the country development. Drastic measures are thus needed to circumvent the effects and this study's findings will contribute to this process. Are the developments in HE in Swaziland, for instance, significantly different from the issues being raised in HE in South Africa – (hence a comparative study)? To address the quality and national relevance issues, extensive consultation with key stakeholders and implementation of response action programmes are key solutions to these problems. Proponents of the social-action approach argue for getting solutions from those directly affected by the problem (Burrell & Morgan, 1985; Goldthorpe et al., 1968).

Like in many other countries, the HE sector in Southern Africa is a unique and complex system, because – in addition to the universal change driving forces affecting it – a different impetus for change exists (Mapesela & Hay 2006). Its historical background acts as the main reason why the system is undergoing a major restructuring to become unified, responsive and accommodative of all the people of the country, regardless of colour (RSA DoE 1997; Badsha 2000). Consequently, in this paper we focus specifically on students' satisfaction using a robust measure of service quality that attempts to capture the peculiarities of South Africa and Swaziland higher education.

#### **Higher education in the marketplace and customer satisfaction**

Hemsley-Brown (2006) and Senthilkumar and Arulraj (2011) points out the vital role of higher education management, based on a solid understanding of higher education and on management thoughts and practices, prevalent currently in higher education systems in democratised and market environments. The increased level of competition in the education environment has led to institutions of higher education employing managerial techniques to improve the efficiency and quality of their provisions (Yeo, 2008; Telford & Mason, 2005) and switch from a passive to a more active market approach (Ivy, 2008). If universities are to satisfy student's requirements they must be aware of their own product offerings and how these offerings are perceived in the market place. It is important for institutional policy makers to be aware of the influential factors and the associated impact on potential students (Moogan et al., 2001).

Munteanu, Ceobanu, Bobalca and Anton (2010) also state that in a competitive marketplace, where organisations vie for customers, client satisfaction becomes an important differentiator of marketing strategy. It is argued that customer satisfaction largely depends on the degree to which a product that is supplied by an organisation meets or surpasses customer expectations (Khan & Matley, 2009; Telford & Mason 2005). In an attempt to get an indication of the successfulness of providing products to the market, organisations are engaging in measuring customer satisfaction. Senthilkumar and Arulraj (2011) argue that students are the primary customers of an institution of higher education and often take different roles. For example, they are the product of the process, the internal customers for many campus facilities, the labourers of the learning process and the internal customer of the delivery of the course material. Consequently, care should be taken to ensure that the needs of this target market are satisfied in terms of the product offered.

Central to the service delivery process are the employees of institutions of higher education. This gives rise to the concept of relationship marketing as the offering of educational services by institutions of higher education necessitates interaction between the students, lecturers, parents, alumni, employers, the community and the government, amongst others, and will influence overall satisfaction of the various stakeholders (Nicolescu, 2009). Senthilkumar and Arulraj

(2011), however, state that among all stakeholders, the students of the institution are to be considered the most important stakeholder as they are the most significant customers of institutions of higher education compared to other stakeholders. The foregoing neo-liberal paradigm in which students are customers in a market place is, however, problematic since an equally plausible argument is to view HE as being a public good. We recognise the limitation of this neo-liberal argument and concede that this is only one way of understanding HE.

### ***Service quality and measurement thereof in higher education***

Over the last decade service quality in Higher education has become very important (Athiyaman, 1997; Oldfield & Baron, 2000; Cheung et al, 2011). Brochado (2009) points out that as students are considered to be “primary customers” of an institution of higher education, being the direct recipients of the service provided, the students’ perceived service quality have turned out to be extremely important for institutions of higher education and its management. Yeo (2008) places higher education in the service industry as the primary focus of tertiary institutions is to provide quality learning experiences to students. As competition in higher education becomes fierce (Hemsley Brown & Oplatka, 2006; Curis, Abratt & Minor, 2009) due to various courses offered globally including offers from different institutions, various countries, and different training modes, increasing pressure is experienced by institutions of higher education to offer unique learning experiences to capture the biggest market share.

### **Research questions and objectives**

Overall, this study explores the differences between students’ perception of service quality in South Africa and Swaziland. In addition it examines gender differences between students of the two Southern African countries. Specifically, the study engages two research questions:

1. *Gap in students’ perception of service quality in South Africa and Swaziland:* to what extent is there a gap (a change in the confidence scores) between perception of importance and the actual experience of service quality by students in South Africa and Swaziland?
2. *Gender differences in students’ satisfaction:* are there gender differences in students’ satisfaction and other study variables across the universities? Does gender moderate the relationship between the students’ university and their satisfaction?

## **METHODOLOGY**

### *The sample framework*

Three universities were involved in this study, two in South Africa and one in Swaziland. All respondents in this survey completed the same questionnaire. Students from all three universities were tested regarding the importance and their experience of pre-identified service quality variables related to academic and non-academic issues when assessing a specific tertiary institution. The questionnaires were distributed to randomly selected students in pre-determined classes.

*South Africa:* A random sample of 391 students in the Faculty of Management of two South African Universities of Technology was selected (CPTU and TUT). Sample elements were selected from a list of all courses (including numbers of students per course). These two universities are in different provinces and combined they represent 40 percent of student’s enrolment of all the Universities of Technology in South Africa. The sample comprises 59 percent females.

*Swaziland:* A total sample of 173 students was also randomly selected in class context at the only university in Swaziland. The sample comprised of 47 percent female students.

**Measuring instrument and reliability**

*Service quality in HE:* In this study the 13 factors from the scale by de Jager & Gbadamosi (2010) were used to obtain information about specific aspects of service quality in HE. The list of items developed to measure service quality in HE was based on an extensive literature research and the findings of preliminary focus groups consisting of students and lecturers. Adopting an approach similar to the SERVQUAL methodology and the importance-performance technique (Martilla & James 1977), students were asked about the importance (I) (rated on a 5-point Likert-type scale from ‘very important’ to ‘not important at all’), as well as the perceived experiences (P) (rated on a 5-point Likert-type scale from ‘excellent’ to ‘not good at all’) for each of the 52 items on the scale. The resulting instrument, a structured questionnaire, included several variables related to service quality at higher educational institutions – the service quality scale (de Jager & Gbadamosi, 2010). In this sample, the 13 scales performed very well in terms of reliability, with obtained Cronbach’s alpha ranging from 0.60 to 0.83 (details are provided in tables 6a & 6b).

*Intention to leave:* this was measured using the four items of Gbadamosi & de Jager (2009) on a 5-point Likert-type scale from ‘strongly agree’ to ‘strongly disagree’. Example item include: (1) I often think of quitting my present educational institution (reversed score) and (2) I plan to stay in my present educational institution to develop my skills and complete my education. A Cronbach’s alpha of 0.76 was obtained for the sample.

*Trust in management:* this was measured using the five items of Gbadamosi & de Jager (2009) on a 5-point Likert-type scale from ‘strongly agree’ to ‘strongly disagree’. Example item include: (1) I am convinced my educational institution treats me with respect and (2) The management of my educational institution encourages ideas and suggestions about ways to make the institution better. A Cronbach’s alpha of 0.90 was obtained for the sample.

*Readiness for change:* the perception of organisational readiness for change was also measured by five items used by Gbadamosi & de Jager (2009) on a 5-point Likert-type scale from ‘strongly agree’ to ‘strongly disagree’. Example items include: (1) Management takes action quickly enough when new opportunities could help the institution and (2) My educational institution adapts well to changes in funding levels. A Cronbach’s alpha of 0.85 was obtained for the sample.

*Overall satisfaction with the university* was also measured using a single item: What is your overall level of satisfaction with the university where you are currently enrolled? Response was anchored on a 5-point scale from ‘very satisfied’ to ‘not satisfied at all’.

Some other demographic information was obtained including gender, years spent on the course so far, and age.

**DATA ANALYSIS AND FINDINGS**

**Table 1: Summary of Respondent Profile by Gender**

		Male	Female	Total	%Total
<b>University</b>	CPTU (SA)	50	109	159	28.2
	TUT (SA)	108	124	232	41.1
	UNISWA	92	81	173	30.7
<b>Age</b>	16-17 years	0	4	4	0.7
	18-19 years	45	67	112	20.0
	20-21 years	48	100	148	26.4
	21-22 years	61	89	150	26.7
	Over 22 years	93	54	147	26.2
<b>Years spent on course</b>	1 year	86	86	172	31.7
	2 years	37	51	88	16.2

3 years	62	115	177	32.7
4 years	35	40	75	13.8
5 years and above	23	7	30	5.5

Notes: (1) N = 564, Male = 250, Female = 314

Overall, respondents were 55.7 percent female, 34 percent were in their first year, 20 percent were within the 18-19 years age bracket, 26 percent were between 20-21 years; while 26 percent were over 22 years. South African University students were 391 (69%) and Swaziland students were 173 (31%). The completed breakdown of respondents' profile is provided in table 1.

***Gap in students' perception of service quality in South Africa and Swaziland***

A paired-samples t-test was conducted to evaluate the extent of change in confidence scores between perceived importance and perceived experience and whether the difference could be due to chance (Table 2). There is a higher perceived importance than students actually experience for all 52 items on the scale, with all the items statistically significant at  $p < 0.000$ . We calculated the effect of size statistics following Cohen (1988) to determine the magnitude of the effect. The eta squared statistics ranged from 0.14 to 0.55 all of which indicate large effect of size. All the items showed a negative sign between the perceived importance and perceived experience of the service quality on all 52 items used. There is thus a gap between what students consider as important and what they experience in terms of service delivery, with the experience being lower than the importance students placed on every item.

**Table 2: Mean Importance – Experience rating by the service quality attributes**

	Selected service quality attributes	Mean (Import)	Mean (Expe)	Mean gap score (I-E)	t value	Sig. (2-tailed)
1	Hassle free registration	1.50	3.30	-1.793	-26.28	.000
2	Security/safety conditions on campus	1.34	2.92	-1.582	-25.92	.000
3	Well equipped computer facilities	1.33	2.90	-1.564	-24.72	.000
4	Administrative staff approachable/informed	1.56	3.07	-1.510	-24.14	.000
5	Bookstores conveniently located/stocked	1.52	2.91	-1.387	-20.42	.000
6	Scholarships available	1.50	2.88	-1.383	-21.69	.000
47	Social activities/night life	2.41	3.09	-.678	-9.38	.000
48	Attractive campus	1.81	2.47	-.658	-10.86	.000
49	Priority of attracting foreign students	2.08	2.72	-.640	-10.68	.000
50	Well known for attracting foreign students	2.21	2.85	-.633	-10.47	.000
51	Location of institution	1.68	2.26	-.587	-11.97	.000
52	Sports reputation of institution	2.11	2.64	-.530		.000

Note: the top 6 and bottom 6 items from the 52-item scale. All t values are sig. at 0.000

***Gender Differences in students' satisfaction***

The findings relating to gender differences among students across the three universities are presented in this section. A profile of the respondents by gender is provided in table 1.

Independent samples t-tests were conducted to examine gender differences across all study variables – table 3. Significant gender differences were found with the following variables: only one of the 13 service quality in HE factors (sport reputation and facilities); readiness for change; and overall satisfaction. The sport reputation and facilities of the university is significantly more important for males than females. Male students more than the females significantly agree that the universities are ready for change. The female students were, however, significantly more satisfied overall with their university than the males.

**Table 3: Independent Samples Test (Gender Differences)**

Study Variables	Male		Female		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	SD	Mean	SD	F	Sig.	t	df	Sig. (2-tailed)
<b>Service quality in HE – 13 factors</b>									
1. Internationalisation	1.91	.755	1.92	.689	.38	.539	-.272	539	.786
2. Mark & Support	1.95	.679	2.01	.726	.27	.606	-	539	.306
							1.025		
3. Access & Approach	1.58	.576	1.53	.535	1.27	.259	1.121	532	.263
4. Intern Students & Staff	2.12	.830	2.17	.857	.02	.895	-.614	550	.539
5. Academic Reputation	1.49	.567	1.45	.499	2.19	.139	.903	545	.367
6. Student Focused	1.84	.754	1.83	.733	.21	.646	.199	544	.842
7. Academic Quality	1.63	.704	1.63	.708	.15	.699	.002	551	.998
8. Variety & Reach	1.69	.700	1.72	.728	.11	.743	-.437	549	.662
9. Location & Logistics	1.83	.692	1.82	.725	.24	.627	.137	530	.891
10. Accommodation & Scholarship	1.88	.798	1.95	.879	1.73	.189	-.986	534	.324
11. Sports Reputation & Facilities	1.91	.893	2.13	.994			-	542.959	<b>.005</b>
							2.831		
12. Safety & Security	1.35	.784	1.34	.820	.06	.814	.269	552	.788
13. Parking	2.06	1.196	2.09	1.203	.01	.937	-.334	549	.739
Intention to Leave	3.27	.670	3.24	.716	1.99	.159	.540	551	.589
Trust in Management	3.21	1.154	3.10	1.031	3.57	.059	1.175	544	.240
Readiness for Change	3.16	1.055	2.97	.997	1.54	.215	2.086	549	<b>.037</b>
Overall Satisfaction	2.85	1.037	2.61	.999	.04	.843	2.815	556	<b>.005</b>

Note: N = 564, Male = 250, Female = 314

## Discussion and Conclusion

In this paper, we have attempted to identify the role that perception of service quality and gender differences plays in overall students' satisfaction. Perception of service quality was assessed by 13 factors of service quality by using measures which are location specific as this has been identified an important component of construct validity (De Jager & Gbadamosi, 2009). We analysed the impact of several variables on successful prediction of overall students' satisfaction in order to be able to identify and promote the implications for management of higher education.

The results show that students in all three universities identify significant gaps between perceived importance and the actual experience of students in both South Africa and Swaziland, with the actual experience being lower. The largest gaps were reported in the area of hassle free registration process; security and safety conditions on campus; well equipped computer facilities; administrative staff being approachable and informed; scholarships availability; and bookstores being conveniently located. The smallest gaps were noticed in areas such as sport reputation and sports facilities; the location of the institution; being well known for attracting foreign students; an attractive campus; and social activities and night life.

As regards gender differences, the results revealed significant differences between males and females in only three variables (sport reputation and facilities; readiness for change; and overall satisfaction) of the 17 variables explored in this study. Males showed more interest in sports reputation and facilities and they also held the perception that the university was ready for change, although they were curiously less satisfied overall with the university than their female counterparts. Male stereotypes widely held and anecdotal evidence will suggest that males are more involved in sports and would generally consider sports more important than females in many parts of southern Africa. Overall, students of Swaziland were significantly more satisfied than their South African counterparts and this is further manifest in gender differences between the countries. This would seem logical given that there are many universities in South Africa which generate a sense of competition and basis for students to compare university's service quality and general performance, unlike Swaziland with only one university, and therefore no basis for comparison and consequently dissatisfaction. Although, one could also argue conversely that the absence of competition could essentially generate a sense of frustration and overall dissatisfaction which does not seem to be the case from our findings.

*Implications:* These results call for some tentative cautionary clarifications and the results have implications for the management of HE in these countries. Many of the areas where the largest gaps have been identified between what is considered important and the actual experience are areas that management of HE can make focused modifications to remedy the identified discrepancies. For example, attentions can be paid to preparing for a more supportive registration process, for instance by using temporary hands at peak periods, using enhanced electronic medium; paying more attention to identified security and safety issues on campus; improving computer facilities including networking; engaging administrative staff through training and development that would redirect their focus more to becoming more approachable and informed; seeking private sector, alumni and other philanthropic support for scholarships and sponsorships, and availability; relocating the bookstores more conveniently.

The findings from this study suggest some limitations and a number of areas for further studies. First, gender comparative studies from more countries, especially developed countries, would provide a more robust data for a stronger generalisation of findings. Perhaps, there are trajectories

of men and women, given differences in not only educational experiences, but also cultural backgrounds that play critical roles in the determination of overall satisfaction. For example, women appear more assertive and seemingly equal to men in developed countries, while their counterparts in developing countries, which we sampled, are relatively more dominated and tend to take a back seat. Secondly, follow-up interviews and focus group discussions with carefully selected students and student groups may generate a wide range of valuable additional information to what is obtainable with survey instruments (Gbadamosi & de Jager 2009). Finally, there are different types of HE institutes in South Africa and the present study is based on a sample of Universities of Technology students which might be limiting, hence a wider range of higher education institutes might be more appropriate in any replication where such diverse range exist.

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## **Assessment of the health service delivery of the Nigeria health insurance scheme in Kogi State.**

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*The study assessed healthcare delivery of Nigeria's National Health Insurance Scheme (NHIS) in Kogi state, Nigeria, inaugurated in 2005 to reduce Government's healthcare burden and create more access for Nigerians. However, access and efficiency are limited which is capable of influencing perception of, and preference for the scheme. To determine this, 379 enrollees were sampled using structured questionnaire. Hypotheses were tested with one-way Analysis of Variance (ANOVA) and one-sample Kolmogorov-Smirnov tests. Results indicated more access, positive perception and preference for the scheme. Study recommends pro-active monitoring and higher standards of practice for goal achievement. Further studies were recommended.*

### **INTRODUCTION**

The National Health Insurance scheme (NHIS) was established by Decree 35 of 1999, to aid healthcare financing in Nigeria. Until its commencement in the formal sector in 2005, the cash-and-carry system was the only available option. It was established to ensure that every Nigerian has access to good health care services, protect families from the financial hardship of huge medical bills, limit the rise in the cost of health care services, ensure equitable distribution of health care costs among different income groups and maintain high standard of health care delivery services to enrollees. Other specific objectives were to ensure efficiency in healthcare services, improve and harness private sector participation in the provision of health care services, ensure adequate distribution of health facilities within the Federation, equitable patronage of all levels of health care and availability of funds to the health sector for improved services, (NHIS Decree 35, part II s. 5). Until then, funding of the sector in Nigeria had been grossly inadequate (Ijeomah, 2005). Under the Scheme a total of 15% of contributor's basic salary is deducted at source and paid to NHIS. While the employer pays 2/3 of this (10%), the employee pays 1/3, that is 5%. This is to ensure access to qualitative healthcare delivery to all Nigerians at the long run.

### **STATEMENT OF THE PROBLEM**

Despite these laudable aims, evidences on ground seem to suggest that a number of problems still militate against the scheme's goals:-Access to healthcare is limited. The scheme is operational only in the formal sector of the economy for now leaving out more than 80% of Nigerians in the non-formal sector making access to healthcare delivery difficult. For example out of the 9 LGAs in Kogi East, NHIS accredited healthcare providers are available only in Idah, Dekina and Ankpa LGAs. Respondents' perception of accredited HCPs depends on state of HCPs' equipment and physical facilities, ease of access, promptness of front desk staff, reliability of service outcomes and capability of medical staff. Sights of dilapidated infrastructures, obsolete equipment and unhygienic hospital environments, long wait times and nonchalance of staff are common attributes of many of these HCPs. Healthcare outcomes are generally unsatisfactory because of lack of properly trained and committed personnel. N.Y.S.C doctors are found everywhere consulting under no one's tutelage. A casual visit to some of these HCPs will reveal disenchantment on the faces of the enrollees. Under this scenario, a question that may naturally arise is, will healthcare consumers continue to patronize the Scheme in lieu of the fee-for-service option?

## **OBJECTIVES OF THE STUDY AND HYPOTHESES**

The broad aim of the study therefore is to assess NHIS healthcare delivery to healthcare consumers in Kogi East, Kogi State. Its specific objectives were:

1. Ascertain NHIS healthcare consumers' ease of access to healthcare services in Kogi East;
2. Appraise the perception of NHIS HCPs by enrollees in Kogi East and
3. Ascertain NHIS healthcare consumers' brand preference for NHIS healthcare services in Kogi East.

The hypotheses were presented in null form as follows:

H<sub>1</sub>: Implementation of NHIS has not eased access to healthcare Delivery for enrollees in Kogi East;

H<sub>2</sub>: NHIS healthcare consumers in Kogi East do not perceive HCPs positively;

H<sub>3</sub>: NHIS Healthcare consumers in Kogi East do not prefer NHIS healthcare services to cash-and-carry system.

## **CONCEPTUAL FRAMEWORK**

### **Access to healthcare delivery**

Healthcare is the total package of programme designed and implemented to ensure the wellness of a total man. It involves a whole lot of promotion and curative activities geared towards healthcare assurance. On the other hand, access refers to ability of individuals and or groups to obtain adequate and appropriate healthcare services. This means availability of medical care to patients who can be determined by location, transportation or type of medical service in the area. Factors that limit access to health care are lack of HCPs and ability to pay for services, etc ( McGraw-Hill, 2002). The ease with which, an enrollee access healthcare affects his perception of the HCP.

### **The concept of Perception**

There is a general consensus that perception involves the process of selecting, organizing and interpreting information about a person, product, service or a situation and coming to a subjective or an objective conclusion about the thing or situation (Berelson and Steiner 1964). Ifezue, (1997) indicated that perception is the meaning an individual attaches to a given situation and this is based on accumulated past experiences of the individual involved. Perception originated from the Latin words "perceptio", or "percipio" which means receiving or acquiring of sensory information. Perception is an active process responsible for organization of sensory information into simple, meaningful patterns, (Ornstein & Carstensen, 1991). The mind and the sense organs are involved here. It is a gamut of activities by which information is gathered through our senses of sight, touch, taste, smell and sound. Perceptions made of events or entities depend on how we interpret what we see, what we feel, what we smell and what sound we hear with our ears. One's perception of a thing or an event is modulated by previous experiences. Perception is influenced by the individual's learning, his attitudes and interests, as well as current needs and the prevailing circumstance. Perception is also seen and described as the consciousness of an object or an event.

Marketers make good use of the knowledge about perception in the process of shaping consumers attitude towards their products or services. This knowledge is especially of more strategic importance in their marketing of intangible satisfactions. Perception varies from person to person. More than these, consumers assign different meanings to what they perceived. Consumers tend to perceive more of what they expect. Relating it to healthcare services provided by NHIS accredited service providers, the level of enrollees' satisfaction is a function of what he or she expects to see.

## **REVIEW OF EMPIRICAL LITERATURE**

A number studies relating to social health Insurance and other forms of health administration have been carried in the past. Alnaif (2006) and Okaro, Ohagwu and Njoku (2010) studied perception of medical personnel of the SHI schemes in their countries. While Alnaif reported that Physicians in Saudi believed

access to healthcare was a right in the Kingdom, Okaro et al reported that Radiographers in Eastern Nigeria perceived funding of healthcare as a major policy concern in Nigeria. Both studies reported respondents believe the scheme would facilitate access for healthcare consumers where they are operational.

Studies of enrollees' perceptions of the scheme have also been undertaken, ( Akazili et al 2005 and Awe and Sanusi, 2009). Akazili et al studied the perception and demand for Mutual Health Insurance in the Kassena-Nanka District of Northern Ghana. The study reported positive perception of the scheme as 93% of the respondents indicated in enrolling on the scheme. Awe and Sanusi reported relationship between socio-economic indices and perception of the programme, high level of awareness (87%) and enrollment (83%). The study however reported no significant difference in enrollees' perception of the services provided under the cash-and-carry system and the NHIS.

Ariodiogbu (2005) and Ibiwoye and Adeleke (2008) indicated positive impact of NHIS on the health of the citizens in Nigeria while Lee (2004) reported evidence of positive impact of SHI on the general health indicators in Taiwan. Other studies relating to SHI were equally carried out, (Zhu et al, 2008; Iyioha, 2010 and Lin et al, 2004).

## **RESEARCH METHOD**

The study was descriptive in nature. A survey of enrollees' opinions was conducted in 2011 in Kogi East of Nigeria. The research population constituted 7096 NHIS enrollees in the area. A sample size of 379 out of 7096 enrollees was obtained using the Taro Yamane formula. Stratified random sampling technique was used in selecting 39 enrollees from Odoma Clinics, 23 from Ojochogwu Medical Centre, 81 from FPI Medical Centre, 35 from Maria Gorrette, 08 from Grimard and 134, 15 and 44 from General Hospitals in Idah, Dekina and Ankpa respectively. These were given self administered questionnaire. A pilot survey was conducted and reliability test of instrument yielded a Cronbach alpha of .938 indicating a 94% reliability of instrument. Hypotheses one and three were tested with the one-sample Kolmogorov-Smirnov test while hypotheses two was tested with the one-way Analysis of Variance (ANOVA)

## **RESULTS AND DISCUSSIONS**

The first hypothesis of the study sought to find out whether the implementation of NHIS has improved access to healthcare delivery for the enrollees in Kogi East. The responses of the respondents presented on a 5-point Likert Rating Scale (LRS) indicated that 68% agreed that it has provided easy access to health care delivery while 15% disagreed. 17% of the respondents were undecided. Further, the mean response rate was 3.8 while the standard deviation was 1.228. One sample Kolmogorov-Smirnov (K-S) test was used to test the hypothesis as presented in the table 1 below:

**Table 1. One-Sample Kolmogorov-Smirnov Test**

		NHIS has made access to health care delivery ease in Kogi East
N		300
Normal Parameters <sup>a,b</sup>	Mean	3.8000
	Std. Deviation	1.22814
Most Differences	Extreme Absolute	.236
	Positive	.236
	Negative	-.170
Kolmogorov-Smirnov Z		4.090
Asymp. Sig. (2-tailed)		.000

a. Test distribution is Normal.

b. Calculated from data.

**Source:** Data Analysis (SPSS)

The table shows that the results is significant as the calculated Z-value is 4.090 which is greater than the critical Z-value of 1.96, and the asymptotic significance (p) value is  $0.000 < 0.05$ . Therefore the null hypothesis should be rejected and the alternative hypothesis accepted. Hence, implementation of NHIS has made access to healthcare delivery easy for enrollees in Kogi East.

### Test of hypothesis two

This hypothesis was interested in determining whether enrollees have positive perception of NHIS HCPs in Kogi East. Accordingly, six attributes were used in rating the enrollees' perception of the NHIS HCPs. The results of the respondents' responses are presented in table 2 while the result of the hypothesis test which used one-way ANOVA is presented in table 3.

**Table 2. Summary responses of enrollees' perception of NHIS service delivery efficiency**

	Factors						X	fx
	Updated Equipment	Attractive facilities	Easy access	Promptness of staff	Reliable service outcome	Capable Medical Staff		
Strongly agree	60	48	112	144	150	88	5	3010
Somehow agree	124	84	92	108	112	120	4	2416
undecided	32	52	52	20	12	44	3	636
Somehow disagree	32	44	20	12	8	16	2	264
Stronglydisagree	52	72	24	16	18	32	1	214

**Source:** Field survey

$$\sum fx = 6540$$

$$n = 1800 = 3.61$$

**Table 3. One-way ANOVA Results for Test of Hypothesis Four**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	229.560	2	114.780	41.084	.000
Within Groups	5020.440	1797	2.794		
Total	5250.000	1799			

*Source:* Data Analysis (SPSS)

Result from table 2 indicated that almost 83% of the respondents had positive perception of the NHIS HCPs. Also from the result of ANOVA in table 3 above, the calculated F-value obtained was 41.084. This is greater than the critical F-value of 2.9957. Hence, the frequency of the respondents that perceived NHIS HCPs positively is different from and more than those that do not. Also, with a significance (p) value of  $0.000 < 0.05$ , this result is significant. Therefore, the null hypothesis was rejected and the alternative hypothesis accepted. Hence, NHIS enrollees in Kogi East have positive perception of their HCPs

**Test of hypothesis three**

Hypothesis 3 sought to know whether the enrollees in Kogi East prefer NHIS healthcare delivery to the cash –and- carry system. The result in table 4 below indicated that 77% preferred the NHIS healthcare delivery to cash-and-carry system while 17% do not. 6% of the respondents were undecided. Further, the mean response rate was 4.0866 while the standard deviation was 1.337. One sample Kalmogorov-Smirnov (K-S) test was used to test the hypothesis as presented in the table 6 below.

**Table 4: One-Sample Kolmogorov-Smirnov Test**

		NHIS enrollee in kogi east do not prefer NHIS HC delivery than the cash and carry system
N		300
Normal Parameters <sup>a,b</sup>	Mean	4.0866
	Std. Deviation	1.33711
	Most Extreme Absolute Differences	.339
	Positive	.339
	Negative	-.248
Kolmogorov-Smirnov Z		5.865
Asymp. Sig. (2-tailed)		.000

a. Test distribution is Normal.

b. Calculated from data.

*Source:* Data Analysis (SPSS).

This result is significant as the calculated Z-value is 5.865 which is greater than the critical Z-value of 1.96, and the asymptotic significance (p) value is  $0.000 < 0.05$ . Therefore the null hypothesis should be rejected and the alternative hypothesis accepted. Hence, NHIS enrollees in Kogi East prefer NHIS healthcare delivery than the cash-and-carry system.

## **DISCUSSION OF FINDINGS**

### **Easy Access to Healthcare Delivery for NHIS Consumers**

For this variable, the one-sample Kolmogorov-Smirnov statistical test was conducted with SPSS. With assumption of normality, the calculated z-value 4.090 > the critical z-value of 1.96. At  $p=0.000 < 0.05$ . The z test result is statistically significant. We therefore reject the null hypothesis and conclude that implementation of NHIS has made access to healthcare delivery easy for enrollees in Kogi east. This same position was asserted by Ibiwoye and Adekeke (2008) when they said in their study that “.....the programme has the potential of promoting access to quality healthcare especially among the educated”. This finding corroborated those of Alnaif (2006), and Arodiogbu (2005). It is however noted that access is just one item in the empathy dimension of services. Empathy is more related to the disposition of the staff more than the physical object or facilities of the HCPs. Medical personnel are trained professionals and therefore may most likely be empathic towards their patients whether they are working for an NHIS accredited HCPs or the cash-and-carry health provider. The question as to whether access to NHIS healthcare delivery will differ as in the traditional cash-and-carry systems calls for another frontier of investigation. In a nut shell, enrollees’ response indicated that access to healthcare under the scheme has become easier.

### **Enrollees’ Perception of NHIS Service Delivery Efficiency**

The one-way ANOVA test was conducted with SPSS for this variable. The result of the test showed an F-value of 41.084 > the critical F-value of 2.9957. This means the count of respondent who perceived NHIS service delivery to be efficient was significantly different and more than those who did not. At  $p=0.000 < 0.05$ , this result is statistically significant. We therefore reject the null hypothesis and conclude that NHIS enrollees in Kogi East perceive the NHIS healthcare delivery to be efficient. The six elements measured by the research instrument here were up-to-date equipment, attractive facilities, easy access, promptness of staff, reliability of service outcome and capability of medical personnel to handle healthcare challenges brought to them. Though counts of those who agreed differ factor-wise, the cumulative of all the counts showed significant positive perception of NHIS healthcare delivery efficiency. In other words, respondents perceive the NHIS service delivery in the area as efficient. This finding is unique. Though a number of studies reviewed had the word “perception” in their themes, none of the studies had the objective of determining perception of service delivery efficiency. Lin (et al, 2004) did a comparative survey of group and solo practices. Though the study concluded that the group practices patients had higher service quality perception, the study did not focus specifically on service delivery efficiency. David Marr (1982) attempted analyzing the fact that man’s mind decomposes and assembles cues to form perception about a phenomenon or an event. This indicates that perception is within a context of one’s stock of experience. NHIS enrollee’s perception of the scheme’s healthcare delivery efficiency could partly be accounted for by the fact that a lot of these respondents had not seen anything better than what NHIS system was offering. The rating is not a mile stone assessment after all because it is only relative to what is in existence, the cash-and-carry option.

### **Healthcare Consumers’ Brand Preference for NHIS service**

Data from table 5 were used in conducting the one sample Kolmogorov-Smirnov test. The result showed the calculated Z-value 5.865 > 1.96 critical Z-value. At  $p=0.000 > 0.05$ , this result is statistically significant. This meant that NHIS enrollees preferred the scheme to the cash-and-carry system of healthcare which has been the most prevalent in the country. This finding is in consonance with those of Okaro, Ohagwu and Njoku (2010), but contradicted those of Awe and Sansui (2009) who stated that “87% of respondents did not see any significant difference between the service provided under the cash-and-carry system and the NHIS”. Consumer brand preference is a function of availability of other competing brands. Where this exists, the consumer will have choice to make otherwise he is forced to consume whatever is available (Ojatta and Peter, 2011). A popular maxim says “when what is preferred is not available, what is available is preferred”. Thus the healthcare consumer in Kogi East avails himself of what is provided by scheme.

## **CONCLUSION AND IMPLICATIONS**

The National Health Insurance Scheme in Nigeria came to be for a number of specific objectives which included ensuring access to good healthcare by all Nigerians, protecting families from hardship of large medical bills, ensuring equitable distribution of healthcare costs among different income groups as well as ensuring efficiency of healthcare service in the country. Though a veritable healthcare financing option, great challenges arose from the formal sector where the scheme is being test-run. Government policy that all Federal Government Institutions enroll their employees on the scheme did not provide for potential enrollees' input. Now that the programme is on stream, its success depends largely on enrollees' easy access and service delivery efficiency of the HCPs. This study paid particular attention to these variables which ultimately determined enrollees' perception of the scheme. Specifically, the study investigated access to healthcare delivery, perception of service delivery efficiency and enrollees' preference for NHIS healthcare delivery viz-a-viz the traditional cash-and-carry system in the country in the area.

Access to quality healthcare is one of the major specific objectives of the NHIS. Though the respondents agreed the scheme had eased access to healthcare, evidences on ground suggest that many service providers still run their organizations with outdated equipment calling to question the quality of healthcare being accessed. It is therefore recommended that pro-active inspectorate division be set up to ensure that accredited HCPs use their capitations judiciously. Complaints of enrollees wanting to change HCPs are an evidence of not having the desired easy access to quality healthcare as promised by NHIS.

As to enrollees' perception of service delivery efficiency, the respondents perceive NHIS service delivery in Kogi East as efficient. We however recommend that HCPs put all resources together to provide the NHIS healthcare consumers more efficient service delivery in order to retain their loyalty and help facilitate the achievement of the health-related MDG goals.

Finally the research also sought to determine consumers' preference for NHIS option than the cash-and-carry system. To this it was discovered that the enrollees preferred the Social Health Insurance Scheme more than the cash-and-carry alternative. From this finding, we recommend that NHIS should set a higher standard of practice for HCPs and even those who are not living up to expectation should be de-accredited. The dilemma of the healthcare consumer in the area should be appreciated more than ever before. This recommendation is based on the fact that the physical outlook of some of these HCPs is bereft of any seriousness that medical practice deserves.

### **Further Research**

This study covered enrollees' awareness and perception of NHIS healthcare services delivery in Kogi East of Kogi state, Nigeria. The study only focused on the enrollees of the scheme in the Igala tribal area of the state. The same study should be replicated in the other two tribal areas of the state to determine and compare study results with this present one. Enrollees are not the only stakeholders of the scheme though they are the primary recipients. Studies should also be carried out to determine the awareness and perception of the scheme by non-enrollees, staff of NHIS and the medical personnel of the various healthcare formations connected to NHIS.

Measuring NHIS enrollees' awareness and perception of the scheme is not sufficient in itself. The Nigerian health index should also be measured vis-a-viz the implementation of NHIS in the formal sector of our economy since inception of the scheme in 2005. Studies should also be conducted to determine the service dimensions that would have the highest enrollee score in terms of importance. In other words, which of the service dimensions is of more importance to the enrollees than others?



Wait time in service delivery is a crucial factor in the success or failure of any healthcare organization. Studies should be carried out to determine the average wait time spent by NHIS healthcare consumers in Nigeria. In the course of researcher's visits to the NHIS accredited HCPs in the area, it was noted that a lot of equipment and facilities of these service providers had not been changed in recent times despite payment of capitation to these primary healthcare providers. Studies should also be carried out to determine the existence of this phenomenon, its consequences and also recommendations for tackling the ugly development.

As Nigeria plans to extend the scheme to the non-formal sector soon, further studies should equally be undertaken to determine potential enrollees' intention to subscribe to the scheme when finally it takes off in unorganized sector of the economy.

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## **Human Resources, Management and Organization**

## **Line Manager Involvement in Human Resource Management Issues in Public Universities in Uganda**

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*This descriptive study investigated perceptions of university managers on important HR competencies and management involvement in human resource management (HR) issues for effective leadership of universities in Uganda. The study was driven by late entry of the HR function in public Universities in Uganda, continuous threats of strikes and court cases on HR issues in Ugandan public University. The study established that university manager consider HR competencies and line management involvement in HR issues moderately important for effective leadership of universities with significant differences in their perceptions among Universities but not age and gender or respondents. The study makes a contribution in human resource management issues in public Universities and makes recommendation for further areas of research for effective organizational competitiveness.*

### **Introduction**

Regardless of industry, today's global market, organizations are surrounded by competitors. To develop competitive advantage, it is imperative for the organizations fully leverage the workforce as a competitive weapon (Wan, 2007). The role of HR competencies in managing human resources in organizations effectively is an important strategic HR issue (Khatri and Budwar, 2002). HR competencies are the knowledge, skills and attitudes required to perform HR roles in an organization effectively. According to Ulrich (1997) introduced the concept of HR competencies to employee championship, administrative expertise, business partnership, and change management. In addition the debate on involvement of line managers in HR issues has attracted several academicians and practitioners but has not been fully resolved. For instance, findings by with Brewster and Larsen, (2000) observed that the line managers have the desire to do HR work, while other findings by (Renwick, 2003) concluded that effective participation of line managers required line managers being skilled in HR, as they are the interpreters of policy. Others research findings by Whittaker and Marchington, (2003) argued that line managers do not possess the skills and competencies necessary to perform the HR aspects of their jobs effectively. A study in Uganda Public Health confirm fears that will HR role for public Health works was just a bullet in their job description it required more skills to effectively handle.

Public Universities in Uganda made a late entry in creating an HR function. For instance, Makerere University the oldest existing University created the HR functional department in 2006, with Kyambogo University following in 2009. Previously HR issues were handled by other managers including Vice Chancellor, Deputy vice chancellor finance and Administration, University Secretaries, Deans, heads of department or other heads of units. Notably, newspapers in Uganda indicated at the time of the study cases of Universities in Uganda have been characterized by threats of strikes of both academic and support staff over HR issues, including untimely payments, challenging work schedules, staff pension being used to enhance salaries.

The academic staff at Kyambogo University recommended for the resigning of the Vice Chancellor, of allegations of failure to handle HR issues (Kyambogo, Review Committee Report, 2007). The academic staff has also been involved in a strike due to a decision by management over a grade based pay or a qualification based pay. In Gulu University, some staff sued the University for allegedly terminating their services for training without the permission of the University administration. There are also evidenced court cases, allegedly illegal dismissals of staff. Other staff exit interviews cite HR issues as one of the reasons for staff turnover at Universities (Personal Interviews). These HR issues affect the image of Ugandan Universities as the worst employer and an organization that preaches what they do not practice.

As a result line managers may have excellent academic specializations, but may not have acquired human resource management competencies. Despite University conducive academic development for academic qualifications (Masters and PhDs), there is need to establish the perceptions of managers on management development in handling HR issues and the importance of manager involvement in HR issues for effective leadership of Universities. Devolution of human resource to line managers had received attention of academicians and practitioners in UK, Europe over the last decade (Larsen and Brewster, 2003), however, literature evidence suggested that there were limited empirical studies on HR issues in Universities in Uganda and this study was designed to fill this gap.

## **LITERATURE REVIEW**

### **HR Competencies**

According to Jackson and Schuler (2001) the knowledge and skills and abilities of the people in handling the human resources play an important role in building effective management of organizations. It is argued that line manager career can be enhanced as they develop more HR competencies and more HR work is incorporated in their daily routine (Papalexandris and Panayotopoulou, 2001). Ulrich (1997), in initiated the emphasis on the importance of the development of HR professionals in different roles towards HR leadership in the organization.

In 1997, Ulrich presented the administrative expert, the employee champion, the change agent role, and strategic partner role as HR competencies through which HR professionals can contribute to added value to organizations. According to their study, the Administrative Expert role includes designing and delivering efficient HR processes for staffing, training, appraising, rewarding, promoting and managing the flow of employees through the organization for administrative efficiency. The Employee champion role involves handling the day-to-day problems, concerns and needs of employees to ensure employee commitment. The change agent role, focuses on managing transformation and change, or develops capacity for change. While in the strategic partner roles, involves focusing on aligning HR strategies, practices with organizational strategy to accomplish execution of organizational objectives (Ulrich, 1997). A follow HR survey, established five HR competencies: namely strategic contribution, personal credibility, HR delivery, business knowledge, HR technology (Brockbank and Ulrich, 2002). Further HR survey identified six core competencies: credible activity, cultural steward, organizational designer, strategic architect, business ally and operational executor as importance competencies for HR professionals (Brockbank, Johnson and Ulrich, 2008). In UK the office of personnel management in UK conducted studies on HR and developed HR competency roles as strategic partner, leader, employee champion, technical expert, and change consultant (Pynes, 2009).

In Uganda Nansubuga, (2006) profiled HR professionals and came up with developing and implementing HRM policies and standards; identifying and listing the annual HR requirements;

recruiting, selection and placement of employees; maintaining a comprehensive Human resource information systems (HRIS; planning and budgeting for Annual HR activities; developing and implementing PMCS; capacity building and training; developing reward structures and incentives; developing and implementing Organizational Development Systems. However, in another study (Byarugaba et al (2007) a factor analysis yielded nine core competencies for HR professionals (change management, recruitment and selection, training and development, performance management and control, HR credibility, Strategic partnership in policy design, HR information management, policy implementation, and reward management) with a cumulative percentage of 75.6%; in explaining the multidimensional construct of HR competencies.

According to Kirkbride (2002) every manager should be competent in strategic HR management to add value to organizational effectiveness. This study therefore wished to establish the perceptions of Universities managers on what they considered important HR competencies for effective leadership and management of Universities in Uganda.

### **Line Manager Involvement in HR issues**

Involvement of other non professional managers in HR issues has been an ongoing debate, with some managers accepting this role and others questioning its applicability in line with other responsibilities and training. . A review of literature suggests that HR specialist and line managers tend to work in conjunction with each other across a wide range of issues (Whittaker and Marchington, 2003). This partnership is argued to be beneficial to the organization. Some studies agree to the idea of a partnership between HR and manager involvement as the way to achieve to improved HR function. Since, partnerships create synergies, it was generally agreed that there is need for training of managers, in HR issues. A study by (Papalexandris and Panayotopoulou, 2004)found out that HR professional should take the lead in developing policies, employee development, employee relations, reward pay and benefits, appraisals, quality initiatives, health and safety and communications, as the line managers played a much greater part in resourcing and employee relations, without HR losing control. However, Whittaker and Marchington (2003)cites an International research survey (2000), which identified skill gaps in terms of the breadth of management responsibilities and confidence in the role, suggesting need for training of line managers.

A study in France for instance, established that HR is largely shared with line managers, who become more and more experts in human resource management, as a result of the targeted training that enables them to make adequate decisions in HR matters in keeping with the approach in 'all managers are human resource managers' (Cerdin, and Peretti, 2001). All managers from HR to line are all aware of the importance of developing employee loyalty through effective people management. In order to make impact and added value and create competitive advantage for the organization, HR professionals and line managers can no longer overlook the differing values of employees. Further, results from European countries, indicate that involvement of line management in HR issues especially training and development, pay benefits, workforce incentives and control were similar to those of Spain, though Greece seem to have low levels of partnerships of HR and line management (Cerdin and Peritti, 2001). Similarly, a study by Byarugaba et al (2010) established a mediating effect of HR-line partnering in the relationship between HR competencies and Functional Effectiveness in selected organizations. However, the study did not include sample representation from Universities. Based on this literature the study was established to examine University manager perceptions on importance of line manager involvement in HR issues for effective leadership of Universities.

## **RESEARCH METHODOLOGY**

A descriptive analytical research design was adopted to generate data on the perceptions of whether University Managers considered HR competencies and Line Manager Involvement in HR issues important for effective leadership of public Universities in Uganda. The research basically used quantitative data involving University managers from public Universities in Uganda including Vice Chancellors, Deputy Vice Chancellors, University Secretaries, or their support administrative staff, deans of faculty, Head of Departments/units, faculty Registrars, Administrators and personal Secretaries for public universities that had been in existence for 10 years (National Council of Higher Education, 2007). These managers were approached to establish their willingness to participate in the study. 380 respondents accepted to participate in the study. Primary data was obtained using self-administered questionnaires. SPSS version 17.0 was used for data analysis. The data collected was analyzed using factor analysis, frequency percentages, means and standard deviations for descriptive data; Anova was used to test differences in stakeholder perceptions important HR competencies, and importance of line manager involvement perceptions.

### **Variable Measures**

HR Competencies measurement was adopted and modified from the one used by Nansubuga (2006), adopted using PILA model profiling, factor analyzed in a study by Byarugaba (2007). Since it included the developed by Ugandan profiling HR professional in Uganda, it was considered most appropriate for the Ugandan study. It includes examples of item statements included: the following statement is true for my organization for statements like: 'collecting data from comparable organizations on HR policy issues, conducting functional analysis for each department to establish core function, compiling a list of vacant posts, developing human resource mission in line with the organizational strategy, conducting training needs, conducting formal job evaluation, circulating the organisational mission to staff, effectiveness in communication' etc were used. Line partnering measurement was adopted and modified from the one used by Whittaker and Marchington (2003) using 20 item statement, that required respondent to state to what extent they perceived line manager involvement in the listed HR activities on a scale of one to five with statements like 'designing HR manual, designing and implementing terms and conditions for staff, designing and implanting disciplinary measure' etc. The reliability analysis indicated an alpha of HR competencies (.969), Line Manager Involvement in HR issues (.924); with an alpha value above a mark of 0.7 considered sufficient for reliability of the instrument (Sakaran, 2007).

## **DEMOGRAPHIC FINDINGS**

### **Sample Characteristics**

The study involved public universities in Uganda that had been in existence for 10 years according to the NCHE, (2007). For purposes of confidentiality as agreed the universities were referred to as A, B, C, and D. The total respondents were 380 (100%), where University A has the highest respondents 192 (50.5%), University C had 134 (35.3%), University D had 42 (11.1%) and least University B with 12 (3.2%). The respondents included Heads of department and unites (25%), course coordinators (24.5%), faculty registrars, other faculty/administrators and managers (13.4%), Directors and Principals (4.8%), top management (3.2%). However, 21.3% of the respondents did not wish to specify their categories but were sampled using university manager description, from a range of different faculties, institutes, schools, and other units of the

Universities (ranging from 2% to 5%), including faculties, institutes, school of the universities (law, forestry, computer sciences, psychology, statistics, agriculture, information and library sciences, economics, special needs, engineering, vocational studies, arts, sciences, education, top management, natural sciences, auditing, business among others, thus the different specializations of the university implied a balance representation from most of the university units, that created a rich representation of the understanding perceptions on the study variables by university managers.

In the universities studied, the human resource management function was perceived to be the responsibility of the vice chancellor 144 (30.9%); University Secretary 117 (31.9%), with 88 (24.0%) stating that the management of human resources falls under Deputy Vice-chancellor - Finance and Administration.

## FINDINGS BASED ON STUDY OBJECTIVES

### Perceived Important HR Competencies of effective Leadership of Universities in Uganda

The first objective of this study was intended to establish which HR competencies were considered most important by university managers for effective leadership of Universities. Respondents were requested on a scale of 1 to five to rate important HR competencies for effective leadership of Universities; their responses are presented below.

<i>Aspects of HRCs</i>	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>SD</i>
Change management	335	2.31	5.00	3.84	.540
Employee Advocacy	372	1.00	5.00	3.83	.601
Recruitment/Selection Mgt	341	1.38	5.00	3.79	.538
Rewards Management	349	1.86	5.00	3.76	.575
Training and development	358	2.36	5.00	3.74	.576
Strategic Partnership management	349	2.13	5.00	3.71	.610
Performance Mgt	345	1.60	5.00	3.70	.576
<b>Total</b>	350	1.87	5.00	3.77	.576

*Source: Primary data*

Results indicate that according to respondents HR competencies were considered moderately important for effective leadership of public universities. In order of considered importance; the most considered important HR competencies was change management (3.84), employee advocacy (3.83) and recruitment and selection (3.79) reward management (3.76) training and development (3.74), strategic partnership (3.71) and performance management (3.70) as the least considered important HR competency.

### Perceived Importance of University Manager involvement in HR issues

The second objective of this study was to establish whether line manager involvement in HR issues was considered important for effective leadership of public Universities in Uganda. On a scale of 1 to 5; respondents were requested to state where they considered line manager involvement in HR issues important for effective leadership of Universities; their responses outcomes are presented in below:



Level of importance of Manager	Frequency	Valid percent	Cumulative percent
Not important	6	1.6	1.6
Moderate important	164	58.8	60.0
Important	278	39.1	100.0
Missing	101	26.6	100.0
Total	380	100.0	100.0

Source: Primary Data

Results indicate that majority 164(58.8%) of the respondents considered line management involvement in HR issues in Universities moderately important, while 278(39.1% respondents consider it important for line manager to be involvement in HR issues. However, 6(1.6%) of the respondents did not consider it important for line managers to be involved in HR issues, while 101 (26.6%) did not provide an answer to this question.

### **Differences in perceptions on the importance of Line Manager Involvement in HR issues among Universities, age and gender**

In order to understand analytically the findings, ANOVA test analysis used to establish if there were significant differences in the some of the demographic characteristics of the sample including universities, age and gender. The findings are summarized below:

**Differences in perception among University differences:** Results indicated a statistical difference in the respondents perceptions of different Universities on the importance of involving manager in HR issues for effective leadership of public universities in Uganda ( $F=30.11$ , degree of freedom =3,  $p \leq .000$ ). University D: considers most important (4.08), followed by University C: (4.01), followed by University B: (3.83), and lastly University A: (3.50).

**Differences in perceptions among gender:** Results indicated that there is no significant difference in the perception of the gender of respondents for perceived importance in Line Manager Involvement in HR issues for effective leadership of public universities (degree of freedom 3,  $F=.350$ ,  $p \leq .555$ ). This implies that both male and female respondents perceptions of line manager involvement in HR issues did not differ, they both considered line manager involvement in HR issue moderately important. The mean for male and female was 3.71 and 3.47, with a standard deviation of .507 and .539 respectively for male and female respondents.

**Differences in perceptions among age groups:** Results indicated that there are no significant differences the perceptions of respondents in the importance of line manager involvement in HR issues for effective leadership of Universities in Uganda among the age groups of respondents ( $F= 3.29$ ,  $df = 4$ ,  $p \leq .012$ ). The mean for those between 20-29 (mean = 3.98, standard deviation .559; those between 30-39 years (means = 3.96, standard deviation .555); those between 40-49 years of age (mean = 3.71, standard deviation .493); those between 50-59 years (mean=3.71, standard deviation .511); and those above 60 years of age (mean= 3.54, standard deviation .318).

## **DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

This study established that University managers considered HR competencies moderately important for effective leadership of Universities. The order of considered importance ranged from change management as the most important, employee advocacy, recruitment and selection, reward management, training and development, strategic partnership, and performance management least considered important HR competency. This was contrary to Brockbank and Ulrich (2002) findings that all the HR competencies were important for effective leadership of organizations. While Ulrich et al (2008) who argued a manager should be more competent in strategic role in order to align HR strategies with the organizational strategies. Thus these findings contract prior research on important HR competencies for effective leadership of organizations. An earlier study by Byarugaba (2007) in selected organizations in Uganda, established that HR-partnering was key in creating an effective HR function that would add value to organizational performance accounting for 40.4% in explaining HR functional effectiveness of HR function in organizations. Universities in Uganda were faced with several changes including mergers, intense competition, internationalization, cross-cultural issues (employees and students), new labour laws requirements, etc. These may create several HR challenges for 'ivory towers', of public universities in Uganda, where change used to take a slow pace. This could be one of the reasons why change management competencies that includes employee involvement, communicating effectively to employees during the change process; creating an understanding of change needs, process and involvement. This would create less tension and disagreements in public universities, leading to effective handling of other HR issues like rewards, performance management, employee advocacy, strategic partnerships for effective leadership of public universities in Uganda. This is in agreement with what Wan (2007) observed that dynamic business environments require new managerial competencies including HR competencies.

### **University Line Manager Involvement in HR Issues**

The study established that University Managers considered line involvement in HR issues moderately important for effective leadership of Universities. This was in agreement with what Whittaker and Machington (2003) established that HR and line partnership was beneficial. Further, Renwick and MacNeil, (2003) observed that though it was extremely critical to involve line in HR issues for employee wellbeing advantages, especially for those in service organizations, to achieve competitive advantage. In their view, though involving line in HR issues was still problematic, some managers not willing to carry HR task properly or with limited knowledge in HR policies, with several researchers asserting that line manager assuming some human resource management responsibility can positively influence employee commitment and business performance (Hutcheson and Percell, 2003). Guest and King (2004) too observed that positive outcomes from employees would depend on line managers being skilled in handling people. While HR professional would develop the policies for managing people, it was important that these were developed in consultation with line managers who would eventually act in partnership in implementing the policies. In addition, a study by Nansubuga (2006) and Byarugaba et al (2007) established a relationship between HR competencies and the HR function.

Whittaker and Marchington (2004) established that there was a skill gap in line manager competencies in handling HR issues. These perceptions need thus require manager development in understanding key issues in which line managers could be involved in for effective leadership in universities. Performance management of organizations in no longer the responsibility of the human resource functions alone, but everybody's responsibility. This is why every manager should be innovative in motivating employees for organizational engagement through effective leadership using effective HR competencies. However, Thornhill and Sanders (1998) observed that some managers were not aware of their HR responsibility, thus need for management development.

### **Differences in perceptions in study Variables among different Stakeholders Respondents**

The study established differences in perceived importance of line manager involvement in HR issues. These differences among university have important implications for university managers in understanding HR competencies gaps for effective manager development. This is line with what Papalexandris and Panoyotopoulou (2004) posited that, while it was important for organizations to devolve the HR work to be able to advance the HR function to the strategic role; there is need to design and adopt practices on joint basis taking into consideration all the peculiarities of the organization culture, and provide more expertise and advise to the line for their implementation. Line manager career can also be enhanced as they develop more competencies and more HR work is incorporated in their daily routine thus improving their career prospects and providing them with a more holistic view of management of organizations (Papalexandris and Ponotopoulous, 2004) added. However, there is need to emphasize the responsibility of HR department in supporting line in the delivery of HR services, which is sometimes a neglected practice (Whittaker, and Machington, 2003). This is true for some public universities, where the HR unit is not fully empowered to manage HR; indeed the responsibility of HR management is perceived by managers to be the role of Vice Chancellor, finance and administration, University Secretary, according to findings in this study, instead of everybody responsibility.

The study did not find significant differences in perceived importance of line manager involvement in HR issues among age and gender of respondents. This implies line management involvement in HR issues was considered moderately important across gender and age of university stakeholders.

### **Conclusion, Recommendation and further research**

The study make a contribution in two ways, firstly there was lack of empirical work addressing the understanding of HR issues in Universities in Uganda. The study has filled this gap by establishing that university managers consider HR competencies and line manager involvement in HR issues moderately important for effective leadership of universities with significant differences among different universities. The study thus recommends that Public Universities should take carryout specific HR surveys to understand their HR competencies of their line managers and develop specific manager development programs for university managers on the important HR competencies and effective involvement in HR issues for effective leadership of public universities. It is our view that, it is one of the ways universities can leverage their HR management for competitiveness in a dynamic environment.

Although, the study used a large number of University Managers, who were willing to participate in the study, the analysis is largely descriptive as a result the findings cannot be conclusively generalized. The limitations notwithstanding, the study makes managerial implications for line manager development in HR competencies and effective involvement in HR issues for effective leadership of Universities, where HR studies seemed to be limited. The study extends the debate of HR issues and line manager involvement to public universities adding to the body of knowledge in this area.

Further research should be undertaken to establish relationships between individual HR competencies and effective line manager involvement in HR issues in Universities. The studies can also be extended to other private Universities, or other specific industries, as far as the researcher are aware there are limited empirical studies in predictors and outcomes of effective line manager involvement in HR issues

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## **Managerialism or Collegialism? The evolution of these approaches and perceptions thereof in Higher Education in South Africa.**

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*South African higher education institutions have not been immune from worldwide developments which include changes in the geo-political order, globalization of society, the technology revolution and the loss of monopoly of higher education institutions in creating and disseminating knowledge. The latter in particular has led to significantly diminished public resources for higher education. The corporatization of higher education in South Africa has been a response to these pressures. Equally restructuring of the sector by the State has contributed to a shift towards a managerial approach to the governance and management of higher education institutions. This paper examines the changed environment within which universities have to function with a view to establishing whether collegialism and managerialism can coexist successfully in a changing higher education landscape.*

### **Introduction**

Traditionally universities were generally regarded as communities of scholars researching and teaching together in a collegial environment. Those that were entrusted with the running of the universities were regarded as academic leaders, often first among equals rather than being seen as managers or chief executives. In the last few decades there has been a considerable shift in and erosion of the traditional notion of collegiality in higher education across the world which many scholars see as damaging scholarship and inquiry generally (Deem, 1998; Hambleton, 2006; Lomas and Ursin, 2009). The manifestation of ‘managerialism’ in higher education is simply to control the activities of academics by means of management techniques. Some have described this development as the ‘corporatisation’ of universities or simply treating universities as if they were businesses.

The reason for this development is not hard to find. Higher education is at a crossroads all over the world and this applies equally to South Africa. Dramatic changes in the geo-political order, globalisation of society and the economy and the technological revolution, especially in the domain of information technology, have affected the system of higher education tremendously. Loss of monopoly of the institutions of higher education in creating and disseminating knowledge, the establishment of private higher education institutions and the diminishing public resources for higher education are subjecting the system to critical analysis and demands for transparency and financial accountability (Sanyal and Martin, 1995:1). In addition, the massification of higher education and resulting demands for greater efficiency has resulted in an international trend where governments are looking closely at the structure of their higher education systems – resulting in extensive reforms. (Harman and Harman, 2003).

South African higher education institutions have not been immune from these worldwide developments and face challenges similar to those of other higher education institutions in the world. The recent developments in the South African higher education sector, including the restructuring of the sector early in the century and the demise of technikons in favour of universities of technology, were based on economic rather than academic imperatives – raising the ‘managerialism vs collegialism’ question in the governance and management of higher education institutions. Mergers were, for example, a significant managerialist intervention in the South African higher education landscape and are an extreme example of and a substantial shift towards a managerial approach to the governance and management of institutions at the expense of collegialism. Equally the notion of South Africa as a developing State has seen stronger interventions by Government in higher education to extract maximum return from its investment (Jansen,2002).

This paper examines the consequences of the changed environment within which universities have to function and in particular whether collegialism and managerialism are mutually exclusive or whether these management principles can coexist successfully in a changing higher education landscape with specific focus on the South African Higher Education environment.

### **The Collegial Perspective**

Thomas (in Hambleton, 2006) observed that modern academic life has been a mixture of competition and collegiality. The competitive spirit is well known, for example, in the United States were in order to gain tenure and promotion, the ‘publish or perish’ approach has been widely evident. While the Collegial model has influenced the culture and functioning of academia, one would argue that in its pure form today it has changed dramatically. The collegial model largely owes its roots to the professions. A professional is someone who possesses knowledge shared only with others in the profession. In a higher education institution, historians, sociologists, political scientists and engineers, while not in the same profession but remaining part of their disciplinary grouping within a university, share working conditions, status and functions. These disparate groups are often bonded together into one profession, namely academia, by certain shared values, for example, interest in their students, development of knowledge, interdisciplinary research, etc.

Conceptually collegialism is a practice where a group of scholars work together to their mutual advantage within a self-governing collective. This approach allows groups of academics to preserve the maximum individual freedom to pursue the search for knowledge according to their own values and the demands of their discipline. This model also connotes that there is consensus decision making and that academic freedom<sup>11</sup> is a strong feature, as is democracy and

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<sup>11</sup> Academic freedom can be defined at an individual and collective level. At an individual level it is defined by the American Heritage Dictionary as ‘Liberty to teach, pursue, and discuss knowledge without restriction or interference, as by school or public officials’. At a collective level the Supreme Court of the United States said that academic freedom means a university can "determine for itself on academic grounds:

1. who may teach,

cohesion based on a limited hierarchy of authority making up some of the primary elements. Collegial models tend to emphasise shared common ideals. Leadership arises from committees as well as independent academic activities. Collegialism between academics also manifests itself in the sharing of information, ideas and tasks as well as the professional critique of each other's work (i.e. the notion of peer review) before such work enters the public domain. Equally important is the principle of mutual support in upholding the integrity of the members of the group, an issue we will return to in reflecting on the rise of managerialism.

Leadership in a collegial model was based on consultation and persuasion. Therefore it was not uncommon to have leaders elected from amongst their ranks to head the departments and various structures within the university. Leaders tend to largely represent the group's interest and therefore play a facilitating and encouraging role to obtain collective performance and reach consensus. Since there is no conflict between the views expressed by the leader and those held by the collective, the leader is easily absorbed back into the collective if his/her term of office comes to an end and another leader is elected. If a leader is promoted to a higher leadership position by decision of the collective, such leader continues to promote the ideals and ideas of the collective.

Some observers point out that collegiality is also on the decline in the United States. Frank Rhodes, a former president of Cornell University, devoted an entire chapter in his book on higher education to the importance of restoring community (Hambleton, 2006). He argues that the loss of community undermines the very foundation on which universities were established. This argument in particular establishes that the pursuit of knowledge is best undertaken by scholars living and working not in isolation, but in the challenging atmosphere of the community.

### **The Managerial Perspective**

Today the range of interests, functions and statuses incorporated into higher education is so wide that a 'new professionalism' has been emerging. This 'new professionalism' tends to emphasize qualities more associated with a managerial model rather than a collegial model (Middlehurst, 1993). A managerial model tends to emphasise extensive teamwork, cost consciousness and results orientation. Managerialism, argues Santiago and Carvalho (2004), is a set of identified management processes and instruments whose main goals are achievement of efficiency and the measurement of the performance of the higher education system, its institutions and its professionals.

The managerialist influence is felt at two levels:

- at a macro level there are political strategies oriented to system reorganisation
- at the micro level (institutional level) at governance and management as well as institutional culture and the behaviour of professionals.

Deem (2001) sees managerialism as an instrument, or an analysis path, intended to describe, explain, categorize and understand new discourses and attempts to impose private sector management techniques upon the public sector. Having achieved limited success in the public

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2. what may be taught,
  3. how it should be taught, and
  4. who may be admitted to study?'



sector, the attention has turned to imposing these management techniques on public higher education institutions.

It is argued by its supporters that the managerial model is a response to the massification of higher education and a result of resource stringency (Santiago and Carvalho, 2004). Equally one could argue that the managerial approach to managing higher education institutions is a result of a competitive higher education environment within which higher education institutions had to behave more like corporations. These competitive pressures, including increased competition for limited public funding and the greater financial muscle of the State in the operations of higher education institutions and the need for greater accountability in the expenditure of public funding, has resulted in the introduction of business-minded management procedures and ethos, which are the traditional preserve of the private sector. Support for the managerial approach is further based on the assumption that the orientation of higher education towards the economy and the market is essential to promote innovation (Santiago and Carvalho, 2004). Innovation being the only way to gain a competitive advantage in the modern market economy and the only way in which higher education institutions can ultimately contribute to the development of a country and the enhancement of its social well-being. Implicitly the managerial approach assumes that there is insufficient innovation in the traditional university for it to survive in the modern economic environment. The managerial culture tends to value competence in managing resources, including people but primarily finance, accountability and evaluation. In this type of approach individual autonomy is more restricted and there are tighter controls and supervision of personnel, including academic personnel.

In the South African higher education environment, the most clearly demonstrated manifestation of managerialism, whether consciously or unconsciously, has been the change of the title of Vice-Chancellors to that of CEO, and the appointment of Executive Deans with hardly any academic role but extensive line authority in Faculties. University Councils have modelled themselves on the Boards of large companies and vie for the attention of the so-called 'captains of industry' as members.

Cloete and Bunting (2000) summarise other key features and attributes of the managerial approach as follows:

- General management tends to have a top-down approach resulting in the development of a core of inner circle managers.
- The better-managed institutions tend to establish a solid second tier level of management who carries out policy.
- It tends to rely on fewer, more focused committees to make decisions rather than the broad consultation that characterises the collegial approach.
- The strong, individualistic type of leader will thrive under this model.
- The power within an academic department, a Faculty and to a large extent Senate of a university is greatly weakened. These bodies operate within the context of the broader institutional goals, which are set by top management.
- Strategic management tools (mission and strategic planning) become the basic tools to overcome uncertainty within the environment.

Those promoting managerialist reforms in higher education often tend not only to view students as 'customers' who 'purchase' a service from the university after taking a rational economic

choice about what to study, but emphasise that universities are in competition with one another for the patronage of these ‘customers’. Consequently this pressure results in universities needing to state and re-state what they do in mission and vision statements – which tend to proliferate to faculties, departments and units. Often these mission statements would be rather obvious if the value of universities to society is widely accepted and uncontroversial. Hence the assumption of tighter centralised control and monitoring to limit deviations from mission and vision statements.

Managerialism manifests itself primarily in the following ways:

- There is a clear chain of command. Academics who previously enjoyed a reasonable level of autonomy find themselves reporting and accounting to non academic administrators – albeit with academic titles.
- The complexity of managing academic departments and units in universities. Financial responsibilities and controls with audits and risk management have become critical functions. Equally linked to these financial controls is a greater emphasis on the measurement of work performance and productivity.
- Academic departments are often kept under permanent review through various statutory and institutional quality audits. A gambit of processes and procedures have been developed and designed to audit and evaluate the entire array of teaching, research and community service activities.
- Describing and treating students as customers. The effect of this development has led to an expectation by the student to receive a product (namely a qualification) at the end of a specified period of time regardless of their performance. This notion is distinct from students that come to universities to be educated as part of an iterative and reciprocal process.
- A shift towards research as a commodity where research is done for paying clients. In many ways this shift has seen the rise of ‘entrepreneurial’ universities where research funds the operations of universities. While this approach may resolve some of the financial woes of universities it may limit the research focus of universities to those areas regarded as relevant to the corporate masters.
- A distinction is made between centres, bureaus and institutes that have independent boards and a clear profit orientation and the academic operations. This despite the fact that these centres, bureaus and institutes are staffed by academics employed by the university.

### **The South African Perspective**

As pointed out earlier the managerialist influence is often decided on and shaped at the macro level i.e. the political strategies employed by cabinet ministers to extract both accountability and compliance from institutions. It is contended that the managerialist approach to higher education was initiated by and has generally thrived as a result of the political strategies employed to control higher education – both as far as access and success is concerned. Unfortunately the same approach has been used in the attempts to transform the higher education landscape in South Africa. The development of higher educational post 1994 supports the above argument. The democratically elected South African government soon realized that it had to play a much stronger interventionist and steering role to ensure that the required changes actually took place. Little can be said in argument challenging the reconfiguration of the sector as an example of a strong interventionist approach by the State.

The African National Congress drafted a policy for education and training in January 1994 (Moja and Hayward, 2000). This policy document formed the foundation of a transformed higher education system and proposed the establishment of a national commission to investigate and make recommendations on the entire Higher Education system. This kick started the formulation of new policy for the sector and a stronger involvement of the State in higher education.

The National Commission on Higher Education (NCHE) followed a consultative process to establish a framework for a new higher education dispensation in South Africa. The Commission's proposals rested on three pillars, namely increased participation, greater responsiveness and increased cooperation and partnerships. Increased participation as the first pillar had to address, amongst other things, the needs for equity and redress (NCHE report, 1996). While the Commission strongly supported the process of the 'massification' of the Higher Education System, in order to ensure increased student participation, it acknowledged that this would come at a significantly higher expenditure in higher education. The NCHE strongly advocated that the envisaged increase in student enrolment in the system had to be countenanced by proper quality systems and processes.

The policy of 'greater responsiveness' of the system as the second pillar was in particular to meet the challenges of the post apartheid society that was on a 'change' trajectory, as well as being able to respond to a new world order, namely globalization. In being responsive the higher education system would have to change and adapt its content, curriculum and modes of delivery and develop more participatory forms of governance. The third pillar was 'increased cooperation and partnerships'. This was a very important pillar in that the NCHE envisaged cooperative governance existing both at the system as well as at the institutional level. It did not promote or support State control of the Higher Education sector but rather, given the changes required to move away from the country's apartheid past, saw this cooperative approach as being supervised by the State. Essentially it envisaged a system in which the higher education sector continued to enjoy the necessary freedoms – especially around what and how it taught. In turn the State would give the resources and broad policy directives on national imperatives. Interestingly the State later chose to intervene in the higher education sector when it realized that some of the goals it had set for the system were not being accomplished. This resulted in the decision to restructure through mergers.

The managerial model gained further impetus in South Africa as a result of what Cloete and Bunting (1999) call 'management paralysis'. Their observations point to endemic conflict in some institutions between different constituencies, for example, between management and students or worker leadership. Alternatively this conflict was also evident between Councils and Executive Management, sometimes with the involvement of both union leadership and student leadership at this highest level of governance. These conflicts lead to a fundamental weakening of authority and leadership that resulted in the hardening of attitudes on all sides. Under these circumstances the ability to build a collegial relationship based on trust and accountability disappeared out of the proverbial window.

Therefore, it is not surprising that the method that university leadership saw as a safe haven to get a sense of control for them in what was perceived as hostile conditions was that of managerialism, i.e. to take charge and give orders. The top-down approach became *the* way of doing business in universities and strong disciplinary measures tended to be emphasised. This is clearly not what would have been the case if the collegial approach had been followed.

### **Are the principles of Collegialism and Managerialism mutually exclusive?**

This study does not seek to determine whether the evolution from collegialism to managerialism was a natural process caused by the inherent weaknesses of the collegial model and whether the 'new collegialism' has evolved from the evolution process without the inherent weaknesses of its original model. Given the managerialist pressure for accountability, Harvey (1995) noted that there is a resurgence of collegialism which he terms 'new collegialism'. This new collegialism is characterised by two approaches, the first being an attempt to reassert the centrality of academic autonomy in higher education institutions – which is described as the right to make decisions on academic matters. It is not clear whether this centrality should prevail both at macro (ministerial) and at micro (institutional) level. Having it prevail only at one of these levels will lead to an increase in and possibly intolerable conflict between these levels.

The second approach, while regarding the collegial group as a forum for academic decision making, is prepared to include other groupings such as students in the exercise of this role. This approach is outward looking and is responsive to the changes taking place in the environment (Harvey, 1995). It is about facilitating student learning rather than the tradition of teaching and encourages students to acquire a wide range of skills and knowledge – implying cooperation between academic and support services at various levels. The new collegialism promotes transparency of practices and procedures in higher education and an academic shift away from being concerned with a narrow discipline to an interdisciplinary systems approach. As Harvey(1995) observed, this requires placing trust in the professionalism of academics.

It can be argued that the rise of managerialism internationally and in South Africa gained momentum because of a perceived lack of academic discipline and accountability inherent in the traditional collegialist approach(Davies and Thomas,2002). In the modern academic environment, however, academic autonomy is counter balanced by a transparent process of continuous quality assurance and improvement. The collegial approach that is built around continuous quality improvement is viewed as a bottom up approach and consequently is more likely to flourish for the following two reasons:

- Firstly administrators will have sufficient evidence of checks, balances and accountability without imposing additional administrative systems on academics.
- Secondly, academics will buy into the system because the continued renewal it requires is inherent in all three pillars of the role of an academic – teaching, research and community involvement.

The new collegialist approach does not see a disjuncture between the managerialist principle of accountability and its principle of peer scrutiny. In effect the widely accepted principles of continuous quality improvement and renewal shift of the emphasis from external scrutiny to a self-driven system with full participation by academics that set their own explicit quality agenda(Harvey,1995). This does not imply that there will be no need for external scrutiny, but such scrutiny will work in harmony with the new collegial approach. The bottom up quality improvement approach will see academics identifying quality targets, developing action plans and reporting against these plans, hence

improving the lecturer-student interface. In this approach the academic at the centre will involve all relevant stakeholders, team leaders and managers. This effectively means that academics take full responsibility for continuous improvement whilst simultaneously monitoring their discipline and operational environment. This will include teaching and learning, curriculum content, research, barriers to learning, employability of students and external relations (community service). Academics reclaiming a collegial mindset through continuous improvement will develop procedures and practices that are explicit and transparent and will engage in critical self assessment and evaluation. This new professionalism is what re-unites the collegialism approach to well-managed universities. Academic status and quality is derived not from management or managerialist controls, but from reputation earned from students and to a greater extent the academic community, observed Davies and Thomas(2002:181).

In many ways the quality assurance processes external to the university become the university's own account of its overall quality, destined to monitor the student experience, the professionalism of managers or even the quality of research output. External monitoring and auditing serves to further strengthen the collegial approach to reporting on academic quality and confirms the empowerment of the student. The positive impact of this open approach contributes to building trust in the higher education system as a whole.

### **A Study Exploring the Prevalence of Managerialism and Collegialism at South African Universities**

A limited exploratory study was undertaken to establish staff perceptions on the prevalence of managerialist and collegialist approaches to the governance and management of higher education institutions in South Africa. A questionnaire comprising 22 statements on a five point Likert scale from 'strongly agree to strongly disagree' and a section for general comments was distributed to a sample of employees at higher education institutions. The sample was determined by means of convenience sampling. The questionnaire was administered electronically as well as manually. Sixty (60) respondents from two institutions participated. The results are reported collectively and not per institution. In terms of key biographical details, 45.40% of respondents were academic members of staff. 52.73% comprised executive management, middle management (academic and administrative) and other administrative staff. If academic heads of department were to be counted with the rest of the academic respondents the overall response rate will climb to 58.13% for the academic sector. This study was limited to only two universities given the time to complete this research. The findings arising from this study should not be seen as absolute, but rather as a contribution to the understanding about how staff and academic staff in particular would like to be governed and managed in higher education institutions in South Africa.

### **Results**

For ease of reading Table 1 sets out the responses to the 22 statements. Although a few respondents provided written comments, these are not reported here.

**TABLE 1: STATEMENTS AND PERCENTAGE RESPONSE**

<b>STATEMENTS</b>	<b>% SA</b>	<b>% A</b>	<b>% U</b>	<b>% D</b>	<b>% SD</b>
1. Collegialism is the dominant approach to the management of my institution.	9.09	16.36	20.00	43.64	10.91
2. Managerialism is the dominant approach to the management of my institution.	25.45	45.45	20.00	9.09	0.00
3. Higher levels of academic productivity have been achieved at my university, as a result of the managerialist approach.	5.45	10.91	36.36	36.36	10.91
4. Higher levels of administrative and support services productivity have been achieved at my university as a result of 'managerialism'.	5.45	25.45	30.91	32.73	5.45
5. The collegial management approach at my university impacts positively on the institution's teaching, research, and community service.	10.91	23.64	40.00	20.00	5.45
6. The new generation of academic managers employ the managerial approach because of the lack of resources available to institutions.	9.09	38.18	30.91	20.00	1.82
7. The new generation of academic managers employ the managerial approach because there is a low toleration by the State for wastage of resources.	14.55	21.82	32.73	27.27	3.64
8. The managerialist approach leads to a more sustainable institution.	10.91	18.18	27.27	38.18	5.45
9. The quality of academic output is enhanced by a collegial model of managing a university.	25.45	45.45	18.18	9.09	1.82
10. Academic freedom only thrives when a collegial approach to managing university exists.	27.27	47.27	14.55	10.91	0.00
11. Staff perform at their best when managerial approach to managing is employed.	7.27	18.18	25.45	38.18	10.91
12. Mergers of institutions have contributed to the demise of the collegial model of managing institutions.	14.55	30.91	16.36	3.64	34.55
13. Staff perform at their best when a collegial approach to managing is employed.	27.27	45.45	18.18	9.09	0.00

14. Management approaches associated with ‘for profit’ limits academic freedom and autonomy.	25.45	36.36	16.36	16.36	5.45
15. The ability to create new knowledge is facilitated by a collegial approach to managing universities.	32.73	45.45	14.55	5.45	1.82
16. Academic team work is stronger under the collegial model to managing universities.	36.36	40.00	10.91	7.27	5.45
17. The advantages of managerialism are not fully understood by academics	18.18	25.45	36.36	14.55	5.45
18. The negative impact of managerialism on ‘academic renewal’ is not fully understood by university managers.	16.36	50.91	21.82	10.91	0.00
19. Students demand a well run university and this can only be achieved with managerialist approach.	12.73	21.82	20.00	30.91	14.55
20. Managerial approach has resulted in the elimination of duplicate and overlapping programmes/course, which has had the effect of improved efficiencies at my university.	12.73	23.64	27.27	30.91	5.45
21. Collegial approach to managing a university has no place in the current day higher education arena.	3.64	18.18	18.18	32.73	27.27
22. The managerialist approach to managing has limited an academic’s ability to fully contribute to the development of the university e.g. student related matters, finance.	30.91	45.45	10.91	10.91	1.82

The overwhelming response is that collegialism is not the dominant approach to the management of these universities. Approximately 70% of respondents felt that managerialism was the dominant approach whilst 25.45% who felt that collegialism was the prevailing culture.

The perception of staff was that the managerialist approach did not bring about tangible benefits to the institution when measured against certain key organisational indicators or factors. The first of these factors relates to levels of academic productivity and administrative and support services productivity. In respect of academic productivity, 47% of the respondents did not feel that the managerialist approach contributed to higher levels of productivity and a further 36% remained unsure. In the case of administrative staff 38% of the respondents felt it had no or little impact but 31% agreed that managerialism contributed to higher levels of productivity in the administrative and support services. When the influence of managerialism on the sustainability of an institution is examined, the results point to 44% of the respondents feeling that it did not

contribute to a more sustainable institution while 29% did feel that there was some influence. 49% of respondents did not agree with the statement that staff perform at their best when a managerial approach to managing a university is employed while a further 25% remained unsure. 36% of respondents did not agree with the statement: 'the managerial approach has resulted in the elimination of duplicate and overlapping programmes which has had the effect of improved efficiencies at my university', while a similar percentage thought it did improve efficiencies.

Given that the respondents see managerialism as the dominant approach, the reasons for the strength of this approach are reported on as follows:

- at least 47% of respondents thought that academic managers employed this approach because of the lack of resources available to the institutions while 22% did not agree.
- A further 36% saw academic managers employing the managerial approach because of the low toleration by the State (government) for wastage of resources. However 33% were unsure about this being a reason for managerial dominance while 31% did not agree with the statement.
- In respect of the statement 'students demand a well run university and this can only be achieved with a managerialist approach', 35% agreed, while in contrast 46% did not agree that a well run university demanded by students can only be accomplished by a managerial approach.

In contrast with the above, the respondents' preference for the collegial model is underscored by what they see as a number of advantages of this approach to managing a university. Nearly 71% of the respondents agreed that quality of academic output is enhanced by a collegial approach. Equally 75% of respondents agreed that academic freedom thrived under a collegial approach and this was well correlated with the statement 'management approaches associated with *for profit* limits academic freedom and autonomy'. Furthermore nearly 73% of respondents thought that staff members perform at their best when a collegial approach is employed and 78% of respondents reported that the ability to create new knowledge is facilitated by a collegial management approach. A further 76% of respondents agreed that academic team work is stronger under the collegial model. Approximately 60% of the respondents indicated that the collegial approach still had a place in the modern day higher education arena, while 22% disagreed. Given the earlier high positive scores in the 70s, one would have expected a similar high score for the statement that a collegial approach still had a place in the modern day higher education arena. The only plausible conclusion for the drop to 60 % is that a group of 18% is ambivalent about these two approaches. A cursory examination of the impact of the age factor, certainly points to the preference of the collegial approach by older staff members to managing the university.

The negative impact of the managerialist approach on managing universities is further evidenced by the responses to the statements on this matter. Nearly 62% of respondents indicated that the negative impact of managerialism on 'academic renewal' was not fully understood by university managers and a further 76% indicated that the managerialist



approach to managing universities has limited an academic's ability to fully contribute to the development of the university.

### **Discussion**

It can be concluded from these results that there is strong support for a collegial approach to managing the universities amongst university staff and that they believe that there are positive benefits to be gained from this model. In reality the dominant model is the managerialist one, with an emphasis on running universities on business principles. There is some evidence of the 'new collegialism' at the universities surveyed but a more extensive study will have to be undertaken to determine whether it has gained ground more broadly in South African universities.

The appropriate starting point for a discussion on which model will dominate the future of higher education in South Africa is to examine the imperatives of the South African higher education environment. The major imperatives can be summarised as follows:

- (1) The participation rates, especially of previously disadvantaged students, must continue to grow in critical vocational areas where the lack of skilled personnel is hampering growth of the economy and country as a whole. While it is acknowledged that there have been increased enrolments particularly of black students, the same cannot be said of the throughput and graduation rates in fields such as engineering, technology, key areas of commerce, etc.
- (2) To develop a consistent number of enrolments at postgraduate level. This must be seen to be taking place in critical disciplines, for example science, engineering and technology. Simply put, universities have to contribute the development of knowledge in those areas.
- (3) The throughput rates in South African universities pose a special challenge. This in turn affects the ability of the nation to always have the right quantity and quality of people to match the development needs of the country.
- (4) A more representative cohort of academics for South African universities, not only as role model and mentors, but to ensure a better understanding of the real issues affected the country.
- (5) Research output must grow, especially applied research that will resolve key issues and national priorities such as poverty, primary health care, jobless growth, employment patterns and economic development.
- (6) Curriculums that not only meet the needs of a global economy but also those of a developing economy. The rural urban divide should also be addressed by South African higher education curriculum and course design.
- (7) Embedding the country's value system of democracy, tolerance, openness and transparency, together with ethical conduct, as core values within higher education. Hence the need to find new ways of managing these institutions by ensuring that these values can thrive in higher education rather than by controlled and suppressed under the guise of efficiency and limited resources.

Despite the multifunctional nature of these imperatives all signals seem to point at a continuation of the managerialist approach to higher education in South Africa to realise these. The period after the restructuring of the South African higher education landscape and the resultant mergers has seen discussions at ministerial level of developments such as demergers. The current demands on the higher education sector will however not be met by a purely managerialist approach. South African higher education institutions must explore the possible coexistence of managerialism and collegialism. This can only be done if the proponents of the managerialist approach to managing higher education institutions are not dogmatic in their approach and will allow the development of a 'new managerialism' which will acknowledge the advantages of including aspects of collegialism into managing a university.

A dogmatic managerialist approach limits the holistic involvement of academic staff members in a number of issues affecting the management of a university. There is an increased risk of this occurring as more and more specialist managers are appointed to manage the various academic and specialist administrative ambits of a university. The growing distance between the academic and the student on matters other than teaching and learning becomes a concern in the development of the student as a whole person. As an example one may look at the manner in which student protest action is resolved at many universities in South Africa. The responsibility for this critical issue is left in the hands of senior management and other administrators. There is very little, if any, involvement of the general university academia in resolving these issues or understanding of the issues underpinning student protest action. This in reality can be directly attributed to the notion of 'managerialism' in that the prevailing attitude of academia is that it is the responsibility university management to resolve such student protest action. In a hierarchical university management structure the roles and duties of staff are neatly parcelled out. And that of academic staff is limited to primarily teaching and learning – and it excludes the mentoring and coaching in life skills and problem solving that could prevent or limit protest action in many instances. This is certainly not the way to go in maintaining and nurturing a university community. This is not a position that the South African higher education sector wants to find itself in, given how staff have responded in this research survey.

## **Conclusion**

This research sought to get a perspective on the evolution of managerialism and perceptions of the prevalence of these approaches as the preferred approach to managing higher education institutions in South Africa. The possible co-existence of these management principles in a changing higher education landscape was also explored. This question remains important to the South African higher education sector given that there has been substantial and increasing involvement of political policy makers seeking to extract higher levels of accountability from universities. Their main argument has been that the public is funding these universities and therefore universities cannot claim to enjoy unfettered institutional autonomy and academic freedom. The quest to ensure that taxpayers' money is spent well in the higher education sector and the call for greater accountability is fair in principle. However a dogmatic approach leads to the

strengthening of the managerialist approach at the expense of the equally important collegial approach to managing universities. This imbalance is not in the best interest of any aspect of university management and may ultimately lead to the overall weakening of universities.

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## **Human Resources, management and Organization: The State of Innovation in Uganda Parastatals**

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*This study examined the state of innovation in Uganda's parastatals. This was prompted by the fact that innovation is undertaken more in the private sector than the public sector. The study sought to inform researchers and policy makers about innovation behaviours in the public sector. Evidence for the nature of innovation in the public sector remained elusive in the extant literature. The study provides some evidence that suggests that competence innovation, structural innovation, and process innovation are under taken in Uganda parastatals and that competence innovation is predominant. The findings provide lessons that contribute to the debate on innovation. Researchers can use the findings to design innovation scales and examine the effect of innovation on the health of public organisations. Managers in parastatal organizations can use the findings to carryout innovations in their organizations.*

### **Introduction**

Organizations that survive in business continuously undertake deliberate efforts to adjust and renew the design of business processes and structures, including core competences. According to Mulgan and Albury (2003), the motivation for innovation in the private sector is the need to maintain or increase profitability which drives the company to innovate to reduce costs, create new products and services and improve market share. However, in the public sector, as Mulgan and Albury (2003) state, the objective is to create organizational value and legitimacy (Moore, 2003). According to O'Donnell (2006) innovation is deficient in the public sector. Yet, according to Walker (2003), high-performing organisations are those which innovate. The question in this study is, what is the state of innovation in Uganda Parastatals?

In order to realize strategic adaptation, Lam (2004) argues that organizations should have the adaptive capacity to influence and shape the environment which requires organizational learning, and innovation so as to cope with environmental turbulence and uncertainty. Some studies though not specifically from parastatals have found that public organizations become resilient by delayering the hierarchical structures, redesigning the work processes, and sometimes overhauling tasks performed by individuals to suit the demand for better service delivery (Ongaro, 2004). This change process which is common in the private sector requires creativeness and innovation through which change agents craft and implement new structures, processes and competences (Chuang et al., 2010). One wonders how innovative are the parastatal organizations in Uganda.

### **The Context of Parastatal Organisations**

In Uganda, the establishment and operation of parastatals started during the era of colonial administration when the country's first 10 year development plan of 1946 was designed (Kauzya, 2008). Kauzya reports that whereas many parastatals in Uganda are formed, others have been privatized and others have died due to poor management hence most of these parastatals have had

limited value since 1970's. Basu (2008) states that parastatals are created to avoid government failures, but they seem to fall into the same trap. They are slow at reinventing service delivery and less responsive to society needs (Basu, 2008) even attempts to improve service delivery seem to yield low public value (Moore, 2003). In Uganda for instance, Muhairwe (2010) reports that corporation managers in Uganda are preoccupied with preordained statutory mandates with limited initiative to innovate. Earlier studies indicate that Uganda parastatal reforms have not improved service delivery (World Bank, 2006; PU, 2005) and service users detest service delivery of a number of parastatal organisations (World Bank, 2006). Rondinelli (2008) adds that parastatal organisations operate under performance deficits, financial deficits; they have weak systems, overdue debts, and underemployed and redundant staff. This case is characteristic of limited of poor innovations in Uganda parastatals.

Adopted from Mafabi, Munene, and Ntayi (2011)

### ***The concept of innovation***

As Chuang et al. (2010) and O'Donnell (2006) state, there are various ways of defining innovation in the extant literature. The focus though is broadly based around the change of organizational attributes to create value for the customer or organisation. One definition of innovation by Koch (2005) is that innovation is about finding new ways of doing things based on organizational learning in a manner that improves the quality and efficiency of the services provided. A similar definition by Bartos (2002) especially in public service is that, innovation is a change in management attributes that creates better service delivery in terms of quantity or quality of output by an organisation.

Theoretically, organizational innovation (OI) is a broad concept that encompasses strategies, structural and behavioral dimensions (Chuang, et al., 2010). Based on this theorization, one wonders whether these dimensions encompass parastatal innovations in Uganda. The notion of OI is subject to various definitions and interpretations (Lam, 2004). The Oslo Manual (OECD, 2005) refers innovation to the implementation of a new organisational method in the firm's business practices, workplace organisation or external relations. According to OECD (2005), OI encompasses three types of practice: that is; management practice (teamwork, knowledge management, flexible work arrangements), production approaches (change to the work organization: total quality management, business re-engineering) and external relations (outsourcing, networking, customer relations) (Chuang, et al., 2010).

The innovation phenomenon has a connotation of newness implying that innovation is the generation, development, and adoption of an idea or behaviour, new to the adopting organization (Damanpour, 1996). Indeed Johannessen, et al (2001) argue that innovation must be new so as to distinguish it from mere change, observing that all innovations are change programmes, but not all change programmes are innovation. Of course, Johannessen, et al (2001) contest the issue of innovation newness, arguing that whereas innovation must be new, but new to who, what is new in it, and how new is the innovation. Innovation is conceived as a means of changing an organization, either as a response to changes in the external environment, or as a pre-emptive action to influence the environment (Damanpour, 1996). The preceding conceptualization of innovation is interesting and paramount for organizational success but to what extent do parastatals adopt innovations if at all they do.

For purposes of our study, we investigated structural innovation, process innovation, and competence innovation as the constructs of innovation which are mainly organizational

innovation with the exception of innovations like product innovation, market innovation, and the like, which were beyond the scope of this study.

### ***Structural innovation***

Organizations design and redesign structures that managers follow while executing the work of the organization. The act of redesigning organizational structures is what, in this study we describe as structural innovation (Wang & Ahmed, 2004). Structural innovation which Wang and Ahmed (2004) called strategic innovation, occurs when the organisation reconceptualises the business strategies and programmes - development of new competitive strategies that create organizational value. Wang & Ahmed (2004) posits that there is limited empirical research on strategic innovation and that authors do not consider strategic innovation as a component factor of organisational innovation. According to Omachonu and Einspruch (2010), structural innovation usually involves changes in the internal and external infrastructure, and creation of new business models.

### ***Process innovation***

All organizations have certain systems that they use to deliver services to their customers. The systems used clearly show the flow of events (process) in service delivery. Organizations, whenever need arises may redesign or reengineer the system to improve service quality. Process innovation involves the introduction of new production methods, new management approaches, and new technology that can be used to improve production and management processes (Wang & Ahmed, 2004).

According to Wang and Ahmed (2004), process innovation refers to the novel changes that managers initiate and implement in the production and service processes, or a delivery method which changes may involve changing techniques, equipment, or software. According to Omachonu and Einspruch (2010) process innovation, is a novel change in the production or delivery system that leads to a significant increase in the value delivered to one or more stakeholders. In this study, we question the validity of the preceding assertion of increase in value wondering whether there is public value in Uganda parastatals.

### ***Competence innovation***

The subject of competence has attracted diverse interpretations in the extant literature most of which focus on the individual competences with little attention paid to organizational strategic (core) competence. In this study we focus on the core competence. The concept of core competence was introduced in the early 1990s and is defined as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies to provide benefit to customers (Prahalad & Hamel, 1990). According to the dynamic capabilities view (Teece et al., 1997) organizations should have the capability to develop and renew core competences.

Organizations develop strategic functional behaviours herein referred to as competence which must be considered core enough to improve organizational competitiveness (Prahalad & Hamel, 1990; Drejer, 2000). There is need for organizational learning in order for organizations to detect functional competence errors and take corrective measures to improve business performance. This can be termed as competence innovation (Drejer, 2000). According to Wang and Ahmed (2004) organizations develop new behaviors of doing things in a bid to remain competitive. These scholars add that behavioural innovation can be demonstrated through individual actions, or team

actions. From the extant literature, the concept of competence innovation appears to be less investigated as most studies have tended to focus on product, process innovation (OECD, 2005).

### **Research method**

The study was a quantitative cross sectional survey. We carried out this study based on a random sample of 342 senior managers because they occupy strategic positions (O'Regan & Ghobadian, 2004) to report about organizational innovation which is a strategic function. To get the actual respondents, the researchers got a contact person and requested him or her to distribute questionnaires to his or her senior colleagues in the organization while ensuring as much representativeness of the senior management team as possible.

### **Organizational Innovation Measure**

Innovation can be measured in different ways depending on the interest of the researcher. Researchers who are interested in market performance may focus their measures on product innovation, market innovation, and technological innovation (Wang & Ahmed, 2004; OECD, 2005), while those studying organizational innovation, per se, may measure innovation in terms of process innovation, structural (strategic/administrative) innovation, and competence (behavioural) innovation (Wang & Ahmed, 2004; OECD, 2005). In this study, we focused our measures of innovation on structural innovation, process innovation, and competence innovation (see appendix) because they are more critical in building adaptive capacity for the organization to absorb shocks (OECD, 2005). We tested for reliability ( $\alpha = .889$ ) and validity (total variance explained by three convergent factors = 69.1%).

### **Data Management**

We used exploratory factor analysis (EFA) in order to identify the most important organizational resilience factors. We conducted the factor analysis based on 237 observations which were large enough to warrant factor analysis. The Kaiser-Meyer-Olkin (KMO) and Bartlett's Sphericity tests which determine the sampling adequacy and significance of correlations, respectively, were used as initial considerations for the factorability of the variables (Field, 2006). The KMO was above 0.7 to warrant sample adequacy and the Bartlett's Sphericity test was significant, suggesting that there were significant correlations among the variables for factor analysis to be carried out. After determining the adequacy of the data for factor extraction, we then conducted a principal component analysis which is recommended for extraction at the eigen value of greater than 1 without fixing the number of factors to be extracted because we were exploring the construct validity, and a varimax factor rotation which assumes independence of factors and is parsimonious (Field, 2006; Hair, et al., 1998). The researchers set the minimum factor loading of .5 which was high enough to extract the most significant items to load on the extracted factors (Field, 2006; Hair, et al., 1998).

From the above analysis, the factor structure for the study variable was examined, then the extracted components were labeled based on the majority of items that loaded on each component and the extant literature and theory (Field, 2006; Hair, et al., 1998). The researchers noted that some of the items loaded on different components contrary to where they previously constructed which is normal in exploratory factor analysis. There



were also some cross loadings and the researchers took the higher loading after evaluating their contribution theoretically. The cumulative percentage of the variance explained by the components based on the rotation sums of squared loadings were above the minimum of 60% (Hair, et al., 1998).

## Results

**Table1: Innovation exploratory factor analysis results**

**Rotated Component Matrix<sup>a</sup>**

	Component		
	Competence Innovation	Structural Innovation	Process Innovation
KMO = .802			
Bartlett's Test of Sphericity:			
p < .05			
CI3	.816		
CI5	.791		
PI1	.778		
SI4	.730		
PI2	.675		
CI6	.650		
CI1	.645		
SI5		.825	
SI2		.759	
SI1		.676	
SI7			
PI4			.910
PI5			.576
Eigen values	4.696	2.602	1.686
Variance Explained (%)	36.121	20.014	12.972
Cummulative Variance Explained (%)	69.107	56.135	36.121

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

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Normalization.

a. Rotation converged in 5 iterations.

The results in table 1 show that most of the items that were believed to be measuring the constructs have indeed been found to be valid as they loaded on corresponding factors (Field, 2006; Hair et al, 1998). The principal components analysis extracted three interpretable factors with eigen values greater than one that accounted for 69.1% of the variance explained in innovation. We named the first factor competence innovation because most of the items loaded on it though some items of process innovation (PI1 and PI2) and of structural innovation (SI4) see appendix). The explanation for this change of loading could be that PI1, PI2 and SI4 could have

been interpreted by respondents as ways behavioural change. We named the second factor structural innovation because items SI1, SI2, and SI5 had loaded on it. As per our conceptualization, we termed the remaining factor process innovation which had only two items (PI4 and PI5) originating from it. The factor loading matrix indicated that competence innovation accounted for the greatest variance explained (36.1%), followed by structural innovation (20.0%), with a minority of 13.0% accounted for by process innovation.

## **Discussion, Conclusion and Implications**

The study has revealed that parastatals in Uganda carry out innovations in form of competence innovation, structural innovation, and process innovation. The study provides evidence that parastatals in Uganda make changes in the, strategic behaviours of carrying out business, structures, and processes of the organization. Since our study was limited to innovation only, there remains questions innovation diffusion and whether innovation in parastatals has any effect. According to Garcia-Morales, et al. (2006), organizations that adapt tend to carry out innovations in their business processes and structures, including core competences become valuable. Different organizations carry out innovations for different reasons. For instance, according to Mulgan and Albury (2003), the drive for innovation in the private organizations is to create capacity to maintain or increase financial performance unlike the public sector (e.g. Mulgan and Albury (2003) where the drive is to create organizational value and legitimacy (Moore, 2003).

Based on the innovation imperative, Walker (2003) advocates for certain innovation practices in the public service organizations like; the management of innovative cultures, management of people, implementation strategies, sustaining innovation through leadership, rewards and awards, favourable budget and resource improvisation like user fees, diversity of skill, and willingness to experiment.

Arguing on the need for strategic adaptation, Lam (2004) contends that organizations should have the adaptive capacity to influence the environment in order to cope with environmental perturbations. Indeed Lam adds that for an organization to adapt to technological change, there is need for better organisational competence.

According to O'Donnell (2006), the innovations may be; incremental - involving relatively minor changes to existing organizational structures, processes, etc, or radical - innovation occurs when critically new ways of organising are developed. O'Donnell (2006) raises another form of innovations, that is systemic or transformative where innovation is undertaken as and when need arises, depending on the environmental dynamics like changing technologies which can lead to new structures, and processes for better competitiveness.

Despite the fact that innovation is proved relevant in any organization, scholars like Bartos (2003) have found that innovation is a challenging project especially in the public sector where bureaucrats regard innovation as a risky venture arguing, for instance, that if an innovation in service delivery is undertaken and it fails, it will attract strong criticism from the opposition politicians and the media (e.g. Mulgan & Albury, 2003; Bartos, 2003). Mulgan and Albury (2003) identified factors that impede innovation in the public sector as; lack of competition and incentives, a culture of risk aversion and bureaucratic conservatism and a workforce which is unresponsive to, and unwilling to change. The preceding factors may hamper the initiation and diffusion of innovation in public organizations. There is need for public managers to become entrepreneurial managers in an attempt to counter innovation impediment factors so as to build adaptive capacity.

We believe that innovations carried out in organizational structures, processes, and competences most likely build adaptive capacity in parastatals, of course on the assumption that innovation impediment factors are identified and managed. The need for innovation to build adaptive capacity has become more imperative due to the fact that all categories of organizations are facing many challenges of doing business that impede their competitiveness with reduced organizational value. To this effect, organizations must redesign their operations to avoid business failure or organizational death at the worst.

There is need for a national innovation policy and parastatal innovation policies that are geared towards promoting novel ideation, and innovation diffusion in the parastatal sector in Uganda. The innovation policy should guide the identification and elimination of barriers to innovation. The national innovation policy should encourage all parastatals to design and operationalise parastatal innovation policies. There is need for managers in parastatals to design attractive human resource management policies that are geared towards considering human resources as the engine for driving the value of parastatal organizations. The human resource management policy should emphasise the sourcing, attraction, development, and retention of human resources the parastatal considers critical for organizational value addition.

The managerial implications of this study are as follows. Parastatals should strive towards becoming competitive through innovations or else stakeholders demand for alternative service providers that may lead to parastatal death. Managers should provide support to enhance innovation diffusion so as to implement innovations as adaptive capacity. Government and development partners can support innovation programs that seek to enhance organizational health in parastatals.

This study has had some limitations that provide gaps for further research. First, the study was cross sectional focusing on snapshot perceptions which could probably not provide quite realistic occurrences of innovation. The study was limited of a correlational design that could have enabled the researchers to examine the effect of innovation on dependent variables like performance, service quality, among others. The focus for future researchers should be as follows.

1. A series of investigations is required to confirm the innovation constructs.
2. A longitudinal study that gathers a mix of primary and secondary data over multiple time periods may provide some advantages for tracing changes in the level of innovation.
3. There is also need for a comparative study that can be done in both public and private sectors in order to compare the level of innovation. The findings of such a study would provide new lessons that can redirect the policy framework in the two sectors.
4. A similar study can be conducted using a correlational study design.

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## INNOVATION SCALE

Please, indicate the degree to which you are in agreement with each of the statements on this scale.

I strongly disagree		I disagree		I am not sure		I agree		I strongly agree			
1		2		3		4		5			
<b>A</b>	<b>Structural Innovation</b>										
SI1	We redesign different strategies to meet our objectives						1	2	3	4	5
SI2	We review the functions of departments in our organization						1	2	3	4	5
SI3	We do not review performance plans in our organization ®						1	2	3	4	5

<b>I strongly disagree</b>		<b>I disagree</b>	<b>I am not sure</b>	<b>I agree</b>	<b>I strongly agree</b>			
<b>1</b>		<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>			
SI4	We improve our systems of handling organization risks			1	2	3	4	5
SI5	We review our programmes			1	2	3	4	5
SI6	We have failed to improve on the time our customers take to get served ®			1	2	3	4	5
SI7	We review the job descriptions of different jobs in our organisation			1	2	3	4	5
SI8	We have failed to improve the methods of delivering our services ®			1	2	3	4	5
<b>B</b>	<b>Process Innovation</b>							
PI1	We redesign the flow of work by the use of information communication technology			1	2	3	4	5
PI2	We design the internet to deliver our services			1	2	3	4	5
PI3	We do not improve the internet to deliver our services ®			1	2	3	4	5
PI4	We change the flow of work by eliminating certain activities			1	2	3	4	5
PI5	We change the flow of work by merging certain activities			1	2	3	4	5
<b>C</b>	<b>Competence Innovation</b>							
CI1	We improve our leadership behaviours			1	2	3	4	5
CI2	We do not improve our customer service behaviours ®			1	2	3	4	5
CI3	We improve our conduct of handling information resources			1	2	3	4	5
CI4	We make new networks for our organization			1	2	3	4	5
CI5	We improve our task performance behaviours			1	2	3	4	5
CI6	We change our behavior of handling organizational resources			1	2	3	4	5

## **A Case Analysis of Work-Life Balance Perception and Practices among Nigerian Bank Managers**

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*The study examines the concept of work-life balance (WLB) policies and practices in Nigeria. This is done through in-depth case studies of 20 banks in the banking sector. The data set comprised of responses from 102 line managers in the Nigerian banking institutions. A review of the extant literature on WLB values in the banking sector revealed that there is a dearth of knowledge on WLB policies and practices in an African context. The findings reveal that there is diversity in terms of how middle line managers understand and experience WLB initiatives in Nigeria. The study suggests some policy implications.*

### **Introduction**

This study explores work-life balance (WLB) policies and practice in the Nigerian banking sector. It investigates the motivations, experiences and the implications of WLB as perceived by bank managers in Nigeria. There appears to be a growing interest in WLB initiatives, although, as a social concept with origins from the western developed world, it is not novel in HRM literature, WLB has been in the fore front of research over four decades (Kanter 1977; Rapoport and Rapoport 1965). The continued interest in this field can be attributed to the changing role of work brought which can be attributed to changes in economic conditions (Greenhaus, Callanan & Godshalk, 2009; Harvey and Wiese, 1998), changing work demography and social roles, changes in the nature of work induced by globalization, firm restructuring, and the weakening of the collective employee voice (Lewis, Rapoport & Gamble, 2007b: 360). Work life balance is however, a contested term. Torrington, Taylor, Hall & Atkinson (2011:33) argues that the term varies with age, interest, value, personal circumstance and personality of each individual. Bergman and Gardiner (2007:401) define WLB as the “practices that represent actions and structural arrangements which addresses individuals’ competing demands, arising from work and beyond”.

The definitions of WLB have often been restricted to the traditional or heterosexual nuclear family or dual parent, or just women with children (Beauregard and Henry, 2009; Craig, Mullan & Blaxland, 2010; Mäkelä and Suutari, 2011). However, WLB should include people outside the traditional family structure such as Lesbians and gays (Al Ariss, and Özbilgin, 2010; Craig *et al.*, 2010 and Ozbilgin, Beauregard, Tatli and Bell, 2011). While extant literature on WLB has significantly given us an in-depth understanding of the phenomenon in developed countries, far less attention has been devoted to exploring WLB realities of individuals in an African context where the institutional and cultural systems differ from that of developed nations (Epie, 2010). In Nigeria, the employment law is obsolete and there appears to be a general reluctance for public policy makers to update the labour laws which support WLB. For instance, the Nigerian labour

Act 1971, section 54(1) (d), does not specifically make provision for maternity leave. However, the leave is usually determined by the contract of employment.

The aim of this study is to close the gap in the literature by making a significant contribution toward our understanding of WLB realities of middle-line managerial staff within the Nigerian banking sector. Specifically, the main objectives are to (a) critically examine and identify the practices of work-life balance in the Nigerian banking sector; (b) assess the range and usage of work-life balance initiatives; (c) evaluate managers' perception of work-life balance in the Nigerian banking sector. The authors believe that this study would be useful to academics, business researchers, existing MNCs and MNCs wishing to operate in Nigeria in the foreseeable future. To achieve the above objectives, this study is organised as follows. The first section is the introduction; the second section presents the conceptual background of WLB. This is followed by an analysis of the characteristics of the Nigerian banking sector. The next section covers the data and methods used to collect the empirical evidence followed by the main findings and discussion of the study. The final section considers the conclusions, implications and area for future research.

### **A Review of Prior Studies on Flexibility**

The discussion on work life balance is closely linked to concerns about the design of jobs and working arrangements (Torrington *et al.*, 2011). Over the past three decades, there has been a wealth of research on the methods with which managers seek to use and control labour relations (Pollert, 1987; Conley, 2006). Employers in response to changing market vagaries such as low production, firm's low profitability and employee work and life equilibrium in the face of recent global financial crisis, have adopted various methods and strategies to manage employees. One such method that has been extensively studied especially in American and British HRM and industrial relations scholarship is the flexible model of human resource management (Torrington *et al.*, 2011; Forrest, Wardell & Sawyer, 2011). According to Tailby (1999:458) "flexibility generally refers to the quality of sensitivity and ability of organisations to react to changing circumstances". Organisational flexibility can be divided into employers and employees flexibility. While employer's flexibility refers to four prevalent forms of flexibilities which include functional, financial, temporal and numerical flexibility (cited in Procter and Ackroyd, 2006). Employee flexibility on the other hand has been inextricably linked to work life balance. Flexibility especially employee's flexibility or what is referred to in this study as work life balance is not a new phenomenon in Africa however, not much attention has been devoted to understanding the concept, its expression in the African work environment and the perception of current policies and practices.

### **Work-life Balance Theory**

There are various theories on work life balance, however Guest (2001) and Naithani (2010) summarise the discourse with a compilation of five individual theories to illustrate the association between work and life outside the workplace. They include the segmentation; spill-over; compensation; instrumental and conflict theories. The segmentation model states that work and life outside of work are mutually exclusive such that one sphere does not impact the other; (ii) the conflict model shows that each sphere has numerous demands hence individuals have to prioritize and make choices that may lead to conflict; (iii) the compensation model demonstrates that one sphere makes up for the lack in the other sphere; (iv) the instrumental model asserts that one sphere emphasizes the other sphere, and (v) the spill-over model states that work and life are interdependent and therefore they influence each other. According to Guest (2001) one of the properties of the spill-over model is that personal life and professional life intermingle and they



have either positive or negative effect on each other. Guest (2001) argues further that employees tend to experience conflict when their work responsibilities become interrelated with their non-work responsibilities. According to Lero and Bardoel (2009), the WLB model can be moderated at various levels which includes the macro level involving public policy; meso level which involves the HR practices, work-life culture, workgroups dynamics; and lastly, the micro level which shows that the individuals' attitudes and behaviours can have serious consequence on employees' WLB initiatives.

The work life balance literature is riveted by a number of limitations such as difficulties with definitions and components of WLB and methodological problems (Chang, McDonald & Burton, 2010). Finally, the majority of studies on WLB have been done among white and blue -collar workers in the US and European countries, resulting in a dearth of illustrative empirical studies from developing economies (Mordi & Ojo, 2011). There is an urgent need for more studies to be undertaken in the context of developing economies which demonstrates the influence of the structural and cultural dimensions of national context in work-life balance research (Ozbilgin *et al.*, 2011). Work life balance is not a new phenomenon in Africa however, not much attention has been devoted to understanding the concept, current policies and practices in the African working environment and this study address this imbalance. The next section discusses the characteristics of the Nigerian labour market and the banking sector.

### **Features of the Nigerian Banking Sector**

The Nigerian banking institution which began in 1892 has undergone radical transformation (Central Bank of Nigeria (CBN), 2011). The central bank of Nigeria sought to reposition Nigerian banks to attain a sound financial environment after the collapse of several banks in the 1990's. By the end of 2005, Nigeria's 89 banks were directed to recapitalize from 2 billion naira to a minimum of 25 billion naira (Asikhia 2010). This led to a consolidation of the Nigerian banking institutions through mergers and acquisitions (M&A) and a whittling down of the Nigerian banks from 89 banks to 24 (Sanusi 2011). The number of bank branches has increased from 3,247 in 2003 to over 5,837 in 2010 and employment in the sector rose from 50,586 in 2005 to 71,876 in 2010 (Sanusi 2011). Soludo (2004:5-6) assert that the banking sector for many years was plagued with several problems. These include (a) weak corporate governance, evidenced by high turnover in the board and management staff, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry; (b) late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness and (c) gross insider abuses, resulting in huge non-performing insider related credits; Over the last six years, the central bank of Nigeria has introduced several remedial measures to mitigate the above mentioned challenges. According to Sanusi (2011), Nigerian banks have not only been recapitalised, but new reforms have meant that banks ensure negligible dependence on public sector for funds, but rather relying on the private sector. Banks in Nigeria have also adopted risk focused and rule-based regulatory framework and strict enforcement of corporate governance values in banking. The next section covers the data and methods used to collect the empirical evidence.

### **Data and Methods**

The study is qualitative in nature and draws from interpretive-constructivist and constructivist-phenomenologist traditions which stress a persons' lived experience (Saunders, Thornhill and Lewis, 2009). The rationale for this methodological position is that it provides an appropriate framework for the development of an in-depth understanding of the research phenomenon

(Chang, McDonald & Burton, 2010 & Creswell, 2007) and leads to the discovery of “richly detailed narratives of the lived experiences of individuals” (Saunders *et al.*, 2009). This research is a case study of the Nigerian banking sector. Case studies are useful approaches of enquiry as they afford the organisational researchers an opportunity to comprehensively explore motivations, meanings, experiences and implications attached to daily ‘events, activities or processes of one or more individuals (Creswell 2009:13).

The total sample of respondents used in this study was 102 line managers from 20 out of the 24 banks in Nigeria. Twenty pseudonyms have been used to represent the various banks. All the interviews were conducted in English. Each semi-structured interview lasted between 30 and 45 minutes. The sampling technique adopted was purposive. Lagos and Abuja were chosen due to the fact that Lagos is Nigeria’s largest commercial centre and Abuja is the Nigerian capital and has a high concentration of bank headquarters and subsidiaries. The interview questions were mainly open-ended and adapted from Hooker, Neathey, Casebourne & Munro (2007) in their study of WLB values. This mainly involved the use of determined codes in order to look for evidence which covered six major sections (i) the demographic characteristics of the respondents from the 20 banks; (ii) the employers and employees understanding of the concept of WLB; (iii) the range and usage of WLB; Participants were solicited through a combination of e-mail, existing personal contacts, referrals and snowballing process. All the respondents who agreed to participate in the field work were screened on the basis of eligibility criteria in order to ascertain whether each interviewee was currently a middle line manager. Middle line managers in the Nigerian banks were identified by their grade and title. These were employees who are responsible for, and manage at least one function in the organization. Importantly, the experience of work-life balance among managerial staff was chosen because there is a strong assumption in the existing literature that achieving a desirable work-life balance at a managerial level is not possible because managers are expected to work long hours which some workers are not so keen to do (Murphy & Doherty, 2011).

## **Findings of the Empirical Evidence**

### **Conceptions of work-life balance among Nigerian Bank managers**

Majority of managers defined WLB as the ability to pay attention to non-work (family) commitments while also succeeding in their job. These managers viewed work life balance in terms of having a good life outside work with emphasis on the opportunity to establish a stable home and nurturing children, attending wedding engagements, child naming, dedication and burial ceremonies etc. In Nigeria, social sanctions can be applied to those who do not take care of, or attend to family matters. The following quotations typify the shared views of the participants:

*Work life balance to me is about being able to have time for my wife and children and my extended family. The nature of my job as a bank manager does not always allow me the time - the job is very demanding but as a man I have to just manage (HR manager Ice bank).*

The HR Manager in Wave Bank stated:

*For me it means being able to spend quality time outside work especially with my parents as I am the only child.*

Brand Manager in Omega Bank also iterated:

*To me personally it means the ability to fit in the needs of my family into a working environment...it simply means that if anything comes up which is important to my family, I would be able to attend to it.*

The above statements indicate that the family system is ranked as significantly important and far higher than an individual's career. In terms of socio-cultural context, a major part of the social fabric of Nigerian society is its collectivist nature and the emphasis on the extended family system. Within the family setup, individuals develop strongly knitted social ties and feel a sense of obligation to support the needs, goals and aspirations of their kith and kin and/or the nuclear and extended family members (Jackson, 2004). The current findings are consistent with studies such as (Hill, Bloom, Black and Lipsey, 2007) that have shown that achieving a balance between home life and work life is becoming increasingly important.

### **Range and Usage of Work-Life Balance among Nigerian Bankers**

#### ***Flexible working arrangement***

Flexible working is one of the major ways of achieving work life balance. It is an arrangement which allows individuals to determine the number of hours they want to work in their place of work. This allows organisations to accommodate variable and seasonal fluctuations whilst ensuring that employees work at their pace and reduce work related stress (Deery, 2008). Bank managers usually work for twelve to fourteen hours a day in addition to weekend work. Many struggle to find a balance between personal, family and work life. This category of workers do not have access to flexible working arrangements such as working from home, compressed work weeks and flexible working hours. One participant reported:

*It is very difficult for us to meet up with family commitments, it is hard to manage the children and home. My wife and I work in banks and we hardly see the children till the weekend. Our work is sincerely affecting our lives but we need the money, what can we do... I can't remember the last time I had a weekend off with regards to this form of arrangement. I am really stressed... (HR manager Head bank).*

It is clear that bank employees want some form of work life balance. In fact, 76 % of the respondents stressed that they would choose a flexible working pattern if it was available. According to one HR director, the bank recognises the necessity for WLB initiatives to be fully utilised by bank employees. He stated:

*We have flexible working patterns for our staff even though not all utilise it. We even have a lot of leave arrangements for the workers. I am sure if you asked the workers, they will tell you we have been generous and understanding by giving employees leave when requested. We know they have family and other issues that they have to attend to. We are supportive (Commercial Manager Foundation bank).*

However, majority of the managers who participated in the interviews were very surprised because it has never been brought to their notice that there was a flexible working arrangement in the bank. Others commented that this arrangement was only for top executive managers. One manager iterated:

*I don't even know what you mean by flexible working arrangement. It is the first time I am hearing the word. This flexible working pattern you are asking is not used in Nigeria. I think it is foreign (Commercial Manager, Red Bank).*

The commercial manager at Solid Bank commented:

*If there is flexible work they must be given it only to the big senior executives. We have no choice; we have to report to work every day, if not we will lose our jobs. I think you know it is hard to get a job in Nigeria. We are suffering and smiling.*

It is clear from the above statements that flexible working arrangement for full-time junior managers is non-existent. This is not the case in developed countries such as UK where flexible work arrangement is often protected by legislation and made available to employees. It is often used by employers as a medium to motivate employees or a way to demonstrate that the organisation is socially responsible. For example, in the United Kingdom, the government has passed a legislation to help parents to have a flexible working arrangement. Parents with children under six years' old or disabled children under 18 have the legitimate right to apply for the flexible working arrangement and employers have a statutory duty to give due consideration to their requests ( Murphy & Doherty 2011). The employee relations officer commented that Nigerians are not used to flexible work arrangements. Mordi and Mmieh (2010) argue further that the preference for conventional full permanent contracts comes from a realisation that Nigeria has a weak and unstable industrial base with large reserves of surplus labour struggling for scarce jobs.

### **Managers' perception of work life balance**

#### ***Long hours***

Majority of managers in the Nigerian banks agreed that the idea of WLB was an important issue that needed to be addressed by the banking institutions. Managers admitted that the banking sector needs to reform its WLB policies and practices. For instance, managers often work between 12 – 14 hours, sometimes seven days a week. They are sometimes not allowed to go on annual leave and even when they are on leave they could be called in by their employers at any time. This is in contrast to the Dutch policy which permits employees the right to adjust working time, seek parental and other form of leave such as caring for family members and allowing older workers to continue to work as long as possible (Fagan and Walthery, 2011:275). The Adjustment of Hours Law (2000) gives Dutch workers the right to request a shortening or lengthening of their normal working hours. As a rule, employers are obliged to grant such a request unless there is a substantive business reason to refuse an employee this privilege. Moreover, employers are generally not allowed to demand to know the reasons behind the request (Tomlinson, & Durbin, 2010).

### **Discussion**

This study has provided insights into the WLB policies and practices of middle-line managerial employees in the Nigerian banking sector. Evidence from the case studies revealed that work life balance issues are of major concern to the middle-line managerial employees of the banking institutions. Various notions of work-life balance were given. For example, some managers on one hand defined work life balance as having “time for family” and time to deal with “health concerns”. On the other hand, others defined WLB as having “personal and/or devoting time for religious leisure activities”. This finding is consistent with the views of McCarthy *et al.* (2010) who argued that employees usually define WLB as having the ability to juggle work and non-work activities. The findings also revealed that the range and usage of work life balance practices are available in the Nigerian banks.

There appears to be a general reluctance for public policy makers to update the obsolete labour laws which support WLB initiatives. For instance, The Nigerian labour Act 1971, section 54(1) (d), does not specifically provide any clause for maternity leave. As a matter of fact, maternity leave is usually determined by the contract of employment. Female pregnant workers are entitled to three months maternity leave with full pay. However, the female workers who benefit from this arrangement are not allowed to extend it. The case studies revealed that maternity extensions are only discretionary gestures which an employer may offer an employee. This policy is different from the policies practised by many developed countries such as UK, where maternity leave can be taken as long as one year with full pay in the first 6 months of the leave, while the remaining 6 months can be taken with half pay. An important factor shaping the WLB in Nigerian banks is the growing weakness of the trade union. This has led to a near absence of employee voice in terms of wage settlements and resolution of disputes.

### **Conclusion and Limitations and Recommendation**

This study has presented various meanings of WLB in the Nigerian banking sector. The study also highlights the limited range and usage of WLB initiatives in Nigeria and the challenges early career middle line managers have in using such mechanism in Nigeria. The study identifies some forces shaping the choices of WLB practices in the Nigerian banking sector. It is also clear that institutional and cultural dynamics propelling work life balance in the Nigerian banking sector are weak. This necessitates an urgent need to put in place regulatory and supervisory structures to help managers redesign work in such a way that it would be more humane and meet global HRM best practices.

In spite of the advantages of the qualitative research method adopted for this study, there are some limitations. Firstly, the issue of generalizability which is also a shared feature of quantitative research method remains to be established (Creswell 2009). In addition, the purely qualitative nature of this study means that conclusions can only be tentative. The authors believe that there are propositions to be tested in further quantitative research. However, this exploratory study has made a much-needed contribution to the extant literature by identifying context-specific variables in Nigeria that may be potentially applicable to other African countries, thus opening new avenues for the wider discourse on the management of work life balance of workers and human resource management research in an African context. The ideas presented in this study are interesting and worth discussing them with an open mind, and it is hoped that these ideas become a starting point for subsequent analysis. For future studies, the authors of this study suggest that it would be interesting to uncover at a deeper level, employees' experiences of work life balance in the Nigerian banks and other sectors of the Nigeria economy. It would also make an interesting study to investigate the impact of WLB policies and practices of multinational banks operating in other African countries.

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## **Exploring possibilities for management education in Africa: The case of South Africa**

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*Literature indicates that the role of education in driving an economy and in social welfare is beyond any doubts. Across the world, in most of the countries, education is always in the priority of government budgets. Education is a resource in fighting with developmental issues and therefore International organizations like UNESCO, has included educational equity in its agenda for capacity building. Contemporary research highlights a growing need for responsible leadership, sustainable development and social entrepreneurship. Literature also indicates that these issues become more relevant in the context of Africa. South Africa faces some unique challenges which are associated with the country's history. Economic development, equality, addressing skill shortages and unemployment are priorities of government. In such scenario, responsibilities of education institutions include ensuring quality, relevancy, affordability and accessibility of education with inculcating knowledge.*

*Various readings on these issues and observations have contributed to the development of this paper. This paper is based on the review of related literature, on indications emerging from the review and on the experiences of authors. This paper attempts to explore the possibilities for management education to contribute to the development of a county. While exploring these possibilities, the uniqueness of the African context and changing multi-polar business environment is also considered.*

### **Introduction:**

*“The world economy is changing as knowledge supplants physical capital as the source of present (and future) wealth” (p9, World Bank, 2000).*

These lines indicate growing strategic importance of education in the overall development of a country. Education policies become crucial when the context is developing countries. In South Africa, challenges are many due to its historic past. This scenario indicates possibilities for business schools to contribute in addressing development challenges. This article first examines the role of education with focus on management education in handling development concerns. This is followed by discussions on challenges of African context in order to identify that effective and efficient management of resources and investment in education can be vital. The next section covers South African context and its challenges. This article ends with discussions on possible ways for business schools to contribute in addressing some of the developmental issues in South Africa.

### **Role of education and management education:**

Education has always been one of the indicators of Human Development Index (HDI) and its contribution in the economic growth of a country is undisputed (Gyimah-Brempong, 2010). Education contributes to the empowerment by helping people to think and act to improve their situations (UNDP, 2010). It also ensures development of skills, helps in gaining employment and adds to the growth of economy (UNDP, 2010). The skilled workforce contributes to a country's

competitiveness and to its positioning in the world market (Porter, 1990). Various levels of education (primary, secondary and tertiary) contribute uniquely in strengthening an economy (Bloom, Canning and Chan, 2006; Gyimah-Brempong, 2010). The work of Gyimah-Brempong, (2010) on African countries brought forth that the tertiary level of education had higher impact on various development indicators than other levels. Promoting tertiary education contribute to the technological advancement, which further helps in eradicating poverty, in promoting good governance and in bringing more openness to trade (Bloom, Canning and Chan, 2006). The role of higher education in building skills became vital in the era of knowledge based economies (Bloom, Canning and Chan, 2006; Materu, 2007).

As far as the management education is concerned, researchers identified that it facilitates development of diversified management skills (Saba et al, 2011), promotes creativity and humane attributes among the learners (Karakas, 2011). Management education helps in developing certain entrepreneurial skills (Sánchez, 2010). To address the issues of competitiveness, entrepreneurial education was considered effective (Ehiobuche, Madueke and Ogechukwu, 2011). Technology intensive and research oriented efforts of business schools can contribute in the economic development by improving competitiveness of human resources (Cox and Tylor, 2006; Napier, Harvey and Usui, 2008). It is important to mention that domain of management education is not free from criticism and it requires serious transformation (Gosling and Mintzberg, 2004; Goshal , 2005). However, the potential of effective management education in influencing the broader issues of country and society is beyond any doubt (Starkey and Tempest, 2008).

Business environment or context affects challenges, contents and delivery of management education (Ishida, 1997; Friga, Bettis and Sullivan, 2003). Besides some similarities, business environment and challenges faced by management schools in developing countries are different than the business schools in other countries (Hawawini, 2005; Jamali, 2005; Napier, Harvey and Usui, 2008).

### **Context: Africa**

Performance of many African countries on various socio-economic and human development indicators is poor (Todaro, 2000; Wanjiru, 2005; Pitt, Opoku, Hultman, Abratt and Spyropoulou, 2007). The continent suffers from poverty, poor health system, poor infrastructure, inequalities, population pressures, HIV pandemic, political conflicts and poor governance to name a few (Madavo, 2005). Some of these constraints together like population growth with weak educational systems or population growth with high unemployment rate in long term, creates bigger concerns to the overall development (World Bank, 2012). The continent is also facing challenges in attracting FDI's and most of the FDI inflow is limited to a few large economies and to the sectors like oil, gas and mining (Anyanwu, 2011). Major challenges in the path of growth of Africa can be categorised under "*higher risks, higher transaction cost and weak institutions*" (p128, Ndulu et al., 2007). As per this report, various threats to investment which range from political uncertainty to macroeconomic instability are '*risks*'. While poor infrastructure is contributing to '*higher transaction cost*' and inefficiencies of financial and banking sectors at human, organizational and institutional levels results into '*weak institutions*' (Ndulu et al., 2007). These all constraints resulted in the poor business environment which is responsible for weak performance of African countries on various development indicators (Bah and Fang, 2010).

It seems that the performance of African countries on development indicators has improved in recent years (McKinsey Global Institute, 2010). However, current challenges like jobless growth, high dependence on natural resources, lack of diversification of economy and trade, aid

dependent development, inefficient use of resources and lack of alternative energy sources are hampering the speed of transformation of the continent (Economic Commission for Africa, 2011). While reflecting on Africa's history, Tefe (2009) highlighted that five decades of colonial past of Africa resulted in dependent mentality which proved fatal for empowerment efforts. Poor governance affects entrepreneurship especially in the small and medium business sector which play crucial role in job creation (World Bank, 2012).

Many strategies were suggested to address various issues. Regional integration and investment in critical sectors like agriculture, energy and transportation (United Nation, 2011) is suggested to create sources of domestic development finance, to promote effective leadership and to ensure a strong state which can plan and implement policies (Economic Commission for Africa, 2011; Ackbarally, 2011). They also recommended regional integration to reap advantages of economies of scale and highlighted how a visionary leadership can facilitate innovation and prioritize projects of national importance. Since many issues are related to human mindset, "*education leading to change in behaviour and attitude*" has more chances of success (p159, Tefe, 2009). Inferences drawn from the analysis of the literature indicates that (a) African countries are facing developmental challenges, (b) some of these issues are contextual in nature, (c) an efficient and effective management of natural and human resources is required to speed up the progress of growth and (d) Investment in education which can empower minds of people, can create employment and can promote entrepreneurship seems promising.

African countries display diversity in terms of resources, challenges, constraints and opportunities (Ndulu et al., 2007), it is essential to take a closer look at specific country in order to understand its constraints and strengths.

### **South Africa: Contextual strengths and Challenges**

South Africa is a sixteen year old young democracy (Euromonitor International, 2011). It is regarded as a middle income country which is a part of emerging market economies of the world (Economic Commission for Africa, 2011). Strong financial and banking systems, diversified export, rich mineral resources, large size of economy and simplified tax system are considered as main strengths of South Africa (Euromonitor International, 2011 and 2010; Ndulu et al., 2007). South African infrastructure is considered better among African economies, but it requires upgrading to remain competitive in the future (World Economic Forum, 2011).

Besides earlier mentioned positives, South African markets are suffering from inefficiencies in labour market, rigidity in employment and wage policies, stressed labour-employer relations and poor performance on health indicators (World Economic Forum, 2011). Unequal distribution of wealth and income, shortage of energy sources, higher public debt, low saving, high crime rate, high unemployment and shortage of skill are also considered major challenges in the development of country (Euromonitor International, 2011 and 2010; Ndulu et al., 2007). It is surprising to observe that in 2009, the country had high literacy rate (88%) but unemployment (around 23.7%) was also high (Euromonitor International, 2010). These reports considered unemployment and skill shortages, especially shortage of professional skills as major obstacles in the development of the country.

A deeper look in the history of the country indicates that challenges like skill shortage and high unemployment are interlinked and are legacy of political past which was discriminating to advantage few (Lynham and Cunningham, 2004; April and April, 2007). Researchers like Badat (p 457, 2011) highlights that under the influence of past, South Africa still suffers from "*disparities in wealth, income, opportunities and living conditions*". On this backdrop,

globalization is adding international competition which although is an opportunity, adds to the challenges (Harris and Lauderdale, 2002).

A quick review of the literature analysed so far indicates that addressing these issues is going to be long hauling and tedious process. It also brought forth that such process will require visionary leaders, participation of public and private enterprises, efficient and effective management of projects of national importance. In South African context, it is evident that understanding the crucial nature of situation, education sector (Twalo, 2010) especially management education has to take more responsibility (Nienaber, 2007).

### **Management Education and South Africa: Some possibilities**

When it comes to South Africa, skills related to management are recognized as a scarce skill (South African Department of Labour, 2008). Number of students in South African management schools are growing especially from the previously disadvantaged classes (Council on Higher Education, 2004) and from the other African countries (Council on Higher Education, 2009). These trends indicate increase in importance of management education. Management education has been facing challenges like how to address inequality in higher education and business sector, how to reach to masses, how to remain contemporary and how to provide skills that are sustainable (April and April, 2007; Bruton, 2008; Heaton, 2008; Purushottam and Rwelamila, 2011). Review of literature so far highlights that addressing skill shortages, ensuring social welfare and competitiveness are the urgent and important issues in front of management education. In addressing these issues, business schools in South Africa can contribute through various initiatives like:

- Business school can facilitate international collaborations which may help in standardizing quality of management education (Napier, Harvey and Usui, 2008). However, while selecting collaboration partners they should consider business schools in developed, developing and African countries (Obamba and Mwema, 2009) in order to position themselves in multi-polar world. This approach has potential to facilitate understanding of students about different environments and their dynamics in the context of globalization (a need indicated by Tefe, 2009). This initiative may contribute to the competitiveness of country by ensuring quality of managers and leaders coming out of business schools.
- Learning from experiences and mistakes of management schools in the other part of world (Napier, Harvey and Usui, 2008). For example:
  - (a) Incorporation of practical knowledge and experiences of management students with theoretical aspects in developing and teaching various courses keeps business school relevant (Gosling and Mintzberg, 2004). Application of this suggestion will help in joining the corporate and schools together in inculcating necessary skills in management graduates.
  - (b) Incorporation of sensitivity towards cultural issues (Cant, 2004) and courses on the development of non technical soft skills which are mostly related with interpersonal management, communication and personality related matters (Mitchell, Skinner and White, 2010) can help in addressing multi-cultural South African business environment.
- Moreover, business schools may work together on creating knowledge base for business case studies (Burke and Rau, 2010) which covers African context. In this manner, South African and African business practices can be documented and used further.

- May be on a small scale, but by creating strong focus on entrepreneurial education (Kabongo and Okpara, 2009; Adcroft, Willis and Dhaliwal, 2004) business schools can contribute in addressing the issue of unemployment.
- Using technology to reach to wider student and faculty population can also be a useful strategy to build advantage (Hawawini, 2005). In South African context, this strategy can be very relevant considering the scenario of skill shortage.
- To promote social welfare, besides including CSR as part of curriculum of management education, business schools can collaborate with government, businesses and NGOs in such endeavours (Skinner and Mersham, 2008). Over a period of time such initiatives can build a strong platform to address many developmental issues.
- Business schools can contribute by promoting innovations by collaborating with businesses (Twalo, 2010). It will be better if small and medium scale businesses are selected as partners. This also can add to the competitiveness of the country.
- The need of promoting responsible leadership through management education was many a time echoed in current management literature (Lorange, 2005; Birnik and Billsberry, 2008). Developing courses which can incorporate issues around this need also can add value to the development of human capital.

It is important to mention that the nature of this subject is very vast. These discussions are just a few possible ways, which are discussed to stimulate reflective thinking and proactive actions among management schools towards a long journey towards contributions in the economic and social development of the country and the continent both.

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## The Moderating Role of Employees' Cultural Orientations in the Performance of Foreign Manufacturing Multinational Companies in Kenya

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**Orientation** – This paper investigated the question, of whether culture really matters in implementing international strategic human resource (SHRM) practices.

**Research Purpose** – This study sought to investigate the extent to which employee cultural orientations moderate the link between SHRM practices and firm performance in large foreign manufacturing multinational companies in Kenya.

**Rationale for the Study** - Large foreign multinational companies have generally applied SHRM practices without adaptation when trying to improve employee performance even though resource based perspectives argue for consideration of employees' cultural orientations.

**Design/methodology/approach** – SHRM practices here are conceptualized as independent variables measured through distinct practices. Organizational performance as a dependent variable is measured using constructs of image, interpersonal relations, and product quality. Cultural dimensions adopted for this study are power distance, uncertainty avoidance, individualism/collectivism, and masculinity/femininity. The above conceptual framework is tested with data from fifty (50) large foreign multinational companies operating in Kenya.

**Main Findings** – Findings indicated that the relationship between SHRM practices and firm performance depend to a greater extent on employee cultural orientations when power distance is considered.

**Practical implications** – The study supported the notion that the relationship between SHRM practices and firm performance is moderated by power distance through motivation but not by the other three bipolar dimensions.

**Originality/value** – This is the first large-scale empirical paper that has focused on the moderating role of employees' cultural orientations in large foreign manufacturing companies operating in Kenya.

### INTRODUCTION

#### Problem Statement

Over the last decade, significant cleavages of opinion have emerged around two related issues; A), about how to adequately implement strategic human resources strategies to grapple with firm performance and B), about whether or not a “bundle of HR best practices” exists that can be applied in all contexts with predictable outcomes. In regards to the first issue, (A, above) the question of whether a direct link between SHRM practices and Firm performance exists, the arguments are equivocal. Whereas, some studies have demonstrated the existence of direct links between strategic human resource management (SHRM) practices and firm performance (Edwards & Wright, 2001), other studies (Dimba, 2010; Katou & Budhwar, 2006) have shown that SHRM practices do not lead directly to business performance but rather they influence employee motivation. In other words, it is employee outcomes that ultimately influence performance. In addition and in regards to the second issue (B, above), two perspectives exist. On one hand researchers who embrace the universalist perspective, emphasize the notion of a “bundle of best practices” in relation to HR practices. On the other hand, however, there is an

opposing viewpoint which disapproves of the notion of a *best practice* bundles. Specifically, Gerhart, (2005, p. 178) argues that an important concern revolves around the fact that "...it seems unlikely that one set of SHRM practices will work equally well no matter the context". This is particularly significant given that contextual variables, particularly national culture or employee cultural orientations have been found in various studies to have an influence on the choice of HRM strategies (Aycaan, Al-Hamadi, Davis, & Budhwar, 2007; Nyambegera, Daniels, & Sparrow, 2001).

Mamman and Adeoye (2007) argue that as developing countries increasingly adopt technologies and expertise that are similar to those of developed countries, foreign multinational companies (MNCs) tend to become conduits for transferring host-country SHRM practices to their developing host-countries often without making any adaptive changes to these practices. The underlying belief in these practices is that SHRM practices in developing countries, are seen as converging towards those of developed countries. This belief is not widely accepted, particularly among the growing number of writers who have shown that cultural diversity in societies around the globe tend to retard and even reverse convergence (Horwitz, Heng, Quazi, Nonkwelo, Roditi, & van Eck, 2006). On the basis of the foregoing arguments, there is a need for additional robust and quantitative evidence to support the MNCs' SHRM-performance link and investigations from different contexts. Thus, the aim of this study is to investigate the question of what is the likely cultural influence on the choice of SHRM practices amongst foreign multinationals in Kenya? Specifically, the research objectives of the study are to determine:-

- the relationship between Human Resources practices and performance
- the relationship between culture and SHRM practices
- whether cultural orientation moderates SHRM practices and employee motivation and,
- whether employee motivation mediates between SHRM and firm performance.

### **Abbreviated Literature Review**

#### ***Culture and Strategic Human Resource Management***

Extant literature (Aycaan et al., 2007; Budhwar & Debrah, 2004) indicates that the major differentiating factors between developed and developing countries, which have an impact on HRM, are contextual. The factors include economic, and historical environments, and socio-cultural characteristics of the workplace and society. The research on MNCs has indicated that among these elements, national culture has generated more interest in the field of comparative HRM because cultures people's behaviors (Brewster & Hegewisch, 1996). In this regard, multinational companies must be sensitive to the prevailing values and attitudes in the host country. MNCs produce and sell goods and services on an international basis, often far from the domestic country (Aycaan et al., 2007; Kirkman, Lowe, & Gibson, 2006). This often calls for the establishment of branches and subsidiaries outside their national boundaries. As a result, multinational companies offer opportunity to people of different cultures to interact. They are playing an increasing role in the global economy as firms continue to increase cross-border investments. As people from different cultures interact, difficulties may be experienced because behaviors are based on different expectations and are the result of different mental programs. Mental programs exert a pervasive, yet hidden influence on behavior (Hofstede, 1984). As a result of variation in mental programs, people often see situations differently and have different approaches and solutions even to similar problems. Even though African countries have received a share of MNCs' foreign direct investments (FDI), most empirical studies that have been undertaken on the management of foreign MNCs are based on research carried out in the United States, Europe, and Asian countries (Blunt & Jones, 1992; Katou & Budhwar, 2007). Curiously, though, conclusions drawn from such studies have assumed a universal or ecological approach to management even where individual countries differ on the basis of cultures. Cross-cultural

research (Hofstede, 1984) shows that certain countries cluster along four specific cultural dimensions. Recent research (Fang, 2003; Ng, Lee, & Souter, 2007) assumes that the most cited cultural classifications in the Social Science Citation Index, is Hofstede's (1980a) Culture's Consequences: International Differences in Work-Related Values. Over two decades have passed since Hofstede's publication, which has inspired thousands of empirical studies and the use of his four cultural dimensions that were derived from his data (Hofstede, 1983):

### **Culture and Human Resource Management in Kenya**

Although Hofstede's empirical results have been replicated in different nations (Kirkman *et al.*, 2006; McCrae *et al.*, 2008) where his cultural framework has been accepted for describing differences among nations, little empirical research has used the Hofstede dimensions to investigate the effect of SHRM practices on performance in different cultural groups. Also research in this area has not been integrated into the possible linkages found in SHRM practices, cultural orientations, motivation, and firm performance in MNCs in developing countries, particularly Kenyan. This issue constitutes a gap in knowledge. Empirical research (Gray & Marshall, 1998; Nyambegera *et al.*, 2001) indicates that culture influences employees' reaction to management practices in Kenya. For instance, like in many African countries, subordinates receive instructions from their managers and when in doubt, wait for the managers to decide the way out (Bate, 1984, 1990). Kenyan managers, especially the old ones, like to be called "boss" as an expression of awe and respect (Kamoche, 1992). This sense of "them and us" demarcation brings about a dependency attitude. However, whilst such practices may make Kenyan employees feel powerless and fearful, those with a subjugated orientation may exhibit greater motivation to be involved in their job (Kamoche, 1992). Employees in high power distance countries such as Kenya may have learned to accept such differences in the firms and attempt by managers in MNCs to narrow the gap could impact employees' motivation negatively. Expecting a Kenyan employee to participate in decision-making process in a multinational company where SHRM practices promote this behavior may create conflict between cultural values and motivation to perform. On this basis the following hypotheses are posited.

*H1: Employee cultural orientations affect the strength of the relationship between SHRM practices and employee motivation.*

### **RESEARCH DESIGN**

**Research approach:** A multi-method empirical approach involving both surveys and interviews was used to decipher the relationship between SHRM practices, employees' motivation and firm performance. This triangulation approach of survey and interviews provided an opportunity to develop a broad-based understanding of the relationships among the key variables used in the study.

**Research Method:** First, a cross-sectional survey of MNCs was undertaken to determine specific parameters across the respondents. On the basis of the responses to the questionnaire, the researcher selected a sample of six MNCs for the interviews. The six MNCs were chosen by a simple random method from the twenty seven (27) companies that had responded to the questionnaire.

**Research Participants:** The target population was large foreign multinational manufacturing companies operating in Kenya, which were members of the Kenya Association of Manufacturers. The main reason for the choice of large foreign MNCs was that these firms were likely to have elaborate SHRM practices and also to transfer those practices to developing countries (Mamman & Adeoye, 2007). Another reason for the choice of MNCs was because research on large

manufacturing companies in developed countries shows that SHRM practices were linked to performance (Bae, Chen, & Lawler, 1998; Katou & Budhwar, 2006; 2007). Because of the small number of foreign MNCs in Kenya, the study took a complete survey and all the fifty (50) MNCs were included in the study. The respondents included specialist HR managers, line managers (marketing managers and production managers), and three employees who were not in a management position - one from each of the functional departments represented by the three managers (six (6) from each organization; Total: three hundred (300) from fifty (50) organizations). Inclusion of employees perspective was based on the argument that employees are most affected by the way their immediate manager treats them, as this determines their day-to-day experience (Richardson, & Thompson, 1999). Further support for their inclusion was the fact that less research has been done among employees as compared to managers and yet employees have a big role to play in the day to day implementation of strategies (Hall, 2004; & Kamoche, 2001). Without knowing how employees interpret SHRM practices, a vital link was missing. The selection criterion used for the employees was years of service in the organization. A longer serving employee is assumed to have acquired more work experience and is likely to give more relevant response than a less experienced employee (Dessler, 2005). The rationale for choosing management respondents is based first, on the fact that HR strategies are usually formulated by management and professional employees rather than lower level employees; and second, inclusion of other non-HR managers was expected to reduce response bias by gauging alternative perspectives (Guest, 2001; Wright *et al.*, 2001; Youndt *et al.*, 1996).

**Measuring Instruments:** This study used the questionnaire developed by both Hofstede (1980a), and Huselid (1995) and modified by the researcher to collect data. Hofstede's (1980a) instrument had been used previously in West Africa, East Africa, and Arab speaking countries. Huselid's instrument contains measures for SHRM practices, motivation and performance. Huselid's instrument had also been used in the US in nearly 1000 large firms. Some previous studies (Bae, Chen, & Lawler, 1998), using similar scales to measure HR practices, found Cronbach's alpha reliability coefficients of .70 in four areas of HR practices, i.e. recruitment and selection, training and development, participation and rewards, while other studies (Delaney & Huselid, 1996) reported alpha coefficients of between .70 and .91 for different HR practices. Regarding the level of the importance of motivation about the employees' job and the organization they worked for, Delaney and Huselid (1996), in particular, found positive relationships between SHRM practices, motivation and performance. A likert's scale of 1 to 5 (Appendix II) was used to measure the level of the problems for most of the cultural values and also the level of general beliefs on cultural issues. Such a scale has been used by Hofstede (1980a, and 1980b). Questions touched specifically on cultural values (measured by Power Distance), and general beliefs (measured by Uncertainty Avoidance, Masculinity/Femininity, Individualism/Collectivism).

**Research Procedure:** Essentially, the study utilized an interview data collection technique that involves oral questioning of respondents. Respondents were asked to give information about organizational performance on quality of product, firm image, and interpersonal relations. In effect this was a perceptual measure of firm performance and previous scales used by Huselid (1995) and Delaney and Huselid (1996) had shown Cronbach's alpha reliability coefficients of between .75 and .88.

**Reliability:** The measurement scales for HR practices and motivation presented above were adopted with modifications from the instruments that were developed by Huselid (1995). For this reason, the researcher tested them again for reliability using pilot data from nine respondents from one large foreign manufacturing multinational company operating in Kenya. This company was not included in the target population. The Cronbach's alpha coefficients obtained, confirmed

the reliability of the measured variables with a coefficient of .70. This coefficient was fairly large and we could, therefore, conclude that the measurement scales were reliable.

## RESULTS

### Quantitative Data

The hypothesis was tested using Pearson's product moment correlation and simple regression analyses.

*H<sub>2</sub>: Employee cultural orientations affect the strength of the relationship between SHRM practices and employee motivation.*

The results are presented in Tables 2, 4 and 5. As shown in Table 2, all the strategic human resource practices, except recruitment and selection, are positively and significantly correlated with motivation. This suggests that the use of best HR practices in training and development, performance appraisal, compensation and flexible work arrangements has a significant positive influence on employees' motivation. To test for the mediating effects of employee cultural orientations (measured by power distance) on the relationship between strategic HRM practices and motivation, the coefficient of determination ( $R^2$ ) was obtained when cultural orientations were in the regression equation and when they were not. The two results were compared. The differences were attributed to the mediating influence of employee cultural orientations. The results are presented in Table 5. It is noted from the table that  $R^2$  decreased by 10% from 40% to 30% but remained the same at 40%, respectively, when cultural values and cultural beliefs were introduced into the regression equation. This indicates that the relationship between strategic HRM practices and employee motivation is weakened by cultural values, while cultural beliefs did not affect the relationship. Therefore, the hypothesis that the relationship between strategic HRM practices and motivation depends on employees' cultural orientations is accepted for the cultural values but not for the cultural beliefs attribute.

### Qualitative Data

This section analyzed the findings of the interviews with heads of human resource, marketing and production departments, and employees from six firms as a follow-up on issues arising from the questionnaire responses that required clarification from additional data. The interviews expanded the information furnished on the questionnaire on the SHRM practices, motivation, and firm performance. Minitab for regression, statistical data analysis software, was used to convert qualitative data to quantitative data.

Table 1: Effect of cultural orientations on motivation of employees of MNCs in Kenya

Variables	n = 24 Frequency (%)
<b>National Cultural Dimensions</b>	
<b>1. Power Distance</b>	
Are you generally afraid to disagree with your superior?	
Yes	4 (16.70)
No	6 (25.0)
Yes and No	14 (58.30)
Total	n = 24 (100)
<b>2. Collectivism</b>	
Would you prefer working for an organization that is directly concerned with your private life, for instance your family matters?	

Yes	21 (87.50)
No	1 (4.17)
Yes and No	2 (8.33)
Total	n = 24 (100)
<b>3. Uncertainty Avoidance</b>	
Do you think company rules should not be broken even when it is in the company's best interests?	
Yes	9 (37.50)
No	9 (37.50)
Yes and No	6 (25.0)
Total	n = 24 (100)
<b>4. Masculinity</b>	
Would you agree with the statement: "Competition among employees usually does more harm than good"?	
Yes	16 (66.70)
No	8 (33.30)
Yes and No	0 (00.0)
Total	n = 24 (100)

The data from the interview that are relevant to hypothesis 1 are presented in Table 2. Although these data are solely descriptive, they are used to corroborate or otherwise the results of inferential statistical tests. First, the results are described in respect of cultural values and second, with regard to cultural beliefs.

Table 2: The Moderating Influence of Cultural Orientations on the Relationship between SHRM Practices and Motivation.

SHRM Practices	Cultural Values	
	Before	After
Training and development	62.5%	58.3%
Staff appraisal	83.3%	58.3%
Compensation Systems	79.16%	58.3%
SHRM Practices	Cultural Beliefs	
	Before	After
Training and development	62.5%	87.5%
	62.5%	37.5%
	62.5%	66.7%
Staff appraisal	83.3%	87.5%
	83.3%	37.5%
	83.3%	66.7%
Compensation Systems	79.16%	87.5%
	79.16%	37.5%
	79.16%	66.7%

Source: This table is extracted from table 2

## DISCUSSION

This study sought to investigate the extent to which employee cultural orientations moderate the link between SHRM practices and firm performance in large foreign manufacturing multinational companies in Kenya. Large foreign multinational companies have generally applied SHRM practices without adaptation when trying to improve employee performance even though resource-based perspectives argue for consideration of employees' cultural orientations. The study finds against this practice, and instead supports the notion that the relationship between SHRM practices and firm performance is distinctly moderated by the cultural dimension of "power distance" through motivation. More specifically, the study addressed three hypotheses.

The main hypothesis ( $H_1$ ) stated that *employee cultural orientations affect the strength of the relationship between SHRM practices and employee motivation*. The study found that a positive relationship exists between SHRM practices and firm performance. In fact, the study significantly supported this hypothesis in that, it found that the majority of the strategic human resource (SHRM) practices save for *recruitment* and *selection*, were positively and significantly correlated with employee motivation. Findings indicated that the relationship between SHRM practices and firm performance depend to a greater extent on employee cultural orientations (when power distance is considered). This finding is important in that it is consistent with earlier works and advocates who disapprove of the notion of a *bundle of best practices*, approach such as by Gerhart, (2005, p. 178) who argues that, it seems unlikely that one set of SHRM practices will work equally well no matter the context". This is also significant given that contextual variables, particularly national culture or employee cultural orientations have been found in various studies to have an influence on the choice of HRM strategies (Aycan *et al.*, 2007; Nyambegera *et al.*, 2001). Although, generally speaking, the results of the studies found were expected based on previous works, the fact that the relationship between strategic HRM practices and employee motivation is weakened only by cultural values, and not by cultural beliefs, presented an interesting departure from expected findings. Consequently, this limited the hypothesis, that the relationship between strategic HRM practices and motivation depends on employees' overall cultural orientations. This unexpected finding may lie in the fact that Power distance may be the most relevant and pertinent cultural value for Kenyans working within organizations that are predominantly predicated on western styles of operation.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the major findings of this study, the following conclusions were made :-

The applicability of Western nations' models of SHRM practices in MNCs operating in developing countries does raise important questions, because the relationship between the use of SHRM practices and firm performance did not hold across the five bundles of what were considered to be 'high performance work practices' (HPWP) in the context of Western developed nations' models of SHRM – recruitment and selection, training and development, performance appraisals, compensation systems, and flexible work arrangements (Budhwar & Katou, 2006, 2007). This study supported the notion that the relationship between SHRM practices and motivation was moderated by cultural orientations when cultural values (measured by power distance) were considered; but did not support the view when cultural beliefs (measured by collectivism/individualism, uncertainty avoidance, and masculinity/femininity) were introduced into the regression. Hence, results of this study partially corroborated those of the previous studies that the relationship between SHRM practices and motivation depended on cultural orientations (Aycan *et al.*, 2007; Horwitz *et al.*, 2006).

**Limitations of the study:** The limitations of this study constrain the interpretation of the findings and point to several issues for future research. First, this study only examined cross-sectional differences among large manufacturing multinational firms. Gaining a clearer understanding of the relationships between SHRM practices, cultural influences and motivation would require longitudinal analysis. Second, this study explicitly examined the influence of cultural values and beliefs on the relationship between SHRM practices, motivation, and firm performance. Drawing conclusions from the use of only one variable (culture) may not give the right picture. The difficulty here was finding an appropriate portrayal of the manner in which a nation's wealth is interwoven with the multitude of other factors that contribute both to cultural stability and cultural change.

**Areas for further research:** Empirical studies are carried to examine the applicability of models of SHRM practices formulated in the Western nations in developing countries. Hofstede (1993) and Brewster et al. (1994) reckon that the dynamic international business environment demands appropriate information and guidance to develop relevant management practices. To obtain more interesting and revealing results of cultural orientations, longitudinal research design be used by future researchers. It is suggested that future researchers accommodate other major differentiating factors, such as economic influence (Begin, 1992; Sundaram & Black, 1992; and van de Vliert, 2006). The creation of national cultures must entail reference to historical factors, and must acknowledge wealth as being both a cause and an effect of other elements in a nation's adaptation to its context.

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## **Testing the MSQ in a Sub-Saharan public sector organization: Insights from Ghana**

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*The purpose of this study was to test the MSQ in a typical public sector organization in sub-Saharan Africa. A Ghanaian public organization was thus chosen as a case study to examine the job satisfaction among employees. A total of 100 usable surveys were analyzed with SPSS. A very low level of job satisfaction was indicated, and more than 83% of respondents indicated dissatisfaction in their pay and the amount of work they do. Significant differences in job satisfaction scores were also found in educational level of staff but, not between genders. The study outcome highlights the roles of employees and organizational weak spots of HRM practices in a typical Sub-Saharan African country, and provides an alternative pathway in employee satisfaction and performance.*

### **Introduction**

The search to identify the causes of job satisfaction or dissatisfaction of employees in organizations has been a factor of interest for academic researchers and human resource managers. Thus, the practical and theoretical importance of job satisfaction for organizational growth is a continuing recognition of HR practitioners and academics (Judge et al., 2001; Parker, 2006). This importance is grounded on the premise that employees who are satisfied with their jobs are considered to be more stable with their organizations (Hartman and Yrle, 1996), and more productive, whereas dissatisfied workers will be less productive and more inclined to quit (Sarker et al., 2003).

Employees have a robust impact on the businesses of their organizations, so, it is very important that management recognize the specific dimensions that facilitate or shape employees' attitudes toward their jobs. Accordingly, Knight (2004) argues that Job satisfaction is a critical organizational variable which can either be an independent or dependent one. The dependent factors, according to him are the individual characteristics like values, interests, needs, attitudes; while the characteristics of the organisation are the reward practices, physical work environment, colleagues and supervisors, and then, the characteristics of the job includes types of intrinsic rewards, the degree of autonomy, the variety of tasks, and the degree of performance feedback. For the independent variables, they include factors like employee motivation and performance (Ostroff, 1992; Thomas and Tymon, 1994), employee absenteeism (Hackett and Guion, 1985; Lambert et al., 2005) and turnover (Robbison et al., 1996, 1997; Griffeth et al., 2000; Wright and Bonett 2007), and all these factors affect employee job satisfaction. Hence, employee job satisfaction is a critical issue for practicing managers, and so Goolsby, and Gassenheimer, (1993) describe job satisfaction as a complicated and multi-faceted construct, with the common and most accepted aspect of the satisfaction (Judge et al., 2001) being the satisfaction with pay, prospects of promotion, supervision, co-workers, and the content of the work (Smith et al., 1969). However, these five facets vary in the overall job satisfaction of employees (Kinicki et al., 2002), and therefore, researchers are continuously working to identify other existing facets of job satisfaction that would undoubtedly benefit from research expanding the range of facets studied (Judge et al.,

2001) because; the scope of job characteristics needs to include all elements that may have become more salient in contemporary job settings (Judge et al., 2001).

This has led to the application and usage of a variety of instruments which have been devised to measure job satisfaction of employees in organizations; The Job Descriptive Index (Smith et al., 1969) which is a 72-item scale, and measures the five facets of job satisfaction on work, pay, promotion, supervision, and coworkers. This instrument has been updated to include an overall satisfaction score, and job in general (Balzer et al., 1990). The Job Diagnostic Survey (Hackman and Oldham, 1975, 1976) which examines several factors related to job satisfaction on autonomy, task identity, task significance, skill variety, and job feedback. The Michigan Organizational Assessment Questionnaire (Cammann et al., 1979), the Job Satisfaction Survey (Spector, 1985), and the Minnesota Satisfaction Questionnaire (MSQ) (Weiss et al., 1967) which is the subject of investigation of this paper. The MSQ instrument contains 100 items in the long form and 20 items in the short form. MSQ scores may be computed into one overall level of satisfaction-score or combined to form subscales measuring both extrinsic and intrinsic factors of employees.

There are very few studies demonstrating the effectiveness of HRM practices outside Western countries. Very little research has been done on HRM practices in Ghana, and none on this particular topic, particularly, testing the MSQ in developing economy. Thus, in order to increase our knowledge on HR practices and systems in developing economies, more research is needed particularly in the unexploited areas of the global transitional economies like Africa (Kuada, 2010).

Thus, this paper attempts to contribute to the paucity of theoretical literature in Africa, particularly in the area of employee job satisfaction in a classical public sector organization in Ghana. Within the limited literature on African management practices, Okpara and Wynn (2007) assert that most employees are not committed to their work due to lack of motivation resulting from traditional management practices. Thus, it is fitting to use the MSQ as a test of job satisfaction in a developing setting. Besides, the copious literatures cited above are predominantly western based underpinning the fact that more research from Africa is needed to fill this gap. Moreover, it is essential to determine whether HRM practices and policies developed in the West also hold in a non-Western country by testing the MSQ which was developed in the west (Weiss et al., 1967). Consequently, investigating the job satisfaction and behaviours of employees in a Ghanaian public sector organization will undoubtedly give us a clear picture of some HR practices in Ghana, and for that matter other African countries due to similarities in cultural and managerial practices.

### **Literature**

Job satisfaction can be described as an employee's affective response to his/her work as a result of a comparison between the actual outcomes and the expected or required (Smith and Stone, 1992). This is consistent with the famous Lockian definition of Job satisfaction as "a pleasurable or positive emotional state" that is "a function of the perceived relationship between what one wants from a job and what one perceives it is offering" (Locke, 1976, p. 1300). Thus, job satisfaction is an individual's subjective feeling that reflects the extent to which his/her needs are met by the job. Consequently, Spector (2003) sums-up job satisfaction simply as "the extent to which people like their jobs" (p. 210).

Empirical support varies on the effects of job satisfaction on employees, and most available evidence is related to simple correlations with organizational variables (Wang and Lee, 2009).

While some researchers believe that there is a strong evidence of a positive relationship between meaning and job satisfaction (Hackman and Oldham, 1980; Spreitzer et al., 1997; Thomas and Tymon, 1994). Others believe that an individual's choice of job satisfaction is a psychological need and that meeting this need results in job satisfaction (Conger and Kanungo, 1988; Greenberger et al., 1989; Parker, 1993).

Researchers (Liden et al., 1993; Thomas and Tymon, 1994), however argue that greater levels of personal control are related to job satisfaction, and this is consistent with Spector's (1986) seminal review, in which he presented evidence for a positive association between job autonomy and job satisfaction.

With regard to the impact of organizational job satisfaction on employees, Thomas and Tymon (1994) affirm that there is a positive relationship between impact and job satisfaction which supports Ashforth (1990) findings that perceived lack of opportunity to have an impact on the organization may possibly be related to the job satisfaction of employees.

Deficiencies in employee job satisfaction or an individual's commitment to his/her work can jeopardize the health of the organization by opening paths to burnout (Whitehead and Lindquist, 1986; Whitehead, et al., 1987), absenteeism (Lambert et al., 2005), and staff turnover (Camp, 1994; Camp et al., 1995; Dennis, 1998; Robinson et al., 1996, 1997). Each one of these consequences has a negative impact on organizational performance due to de-motivation of staff and high employee turnover. Turnover can result in the introduction of inexperienced employees who are more likely to make mistakes, and, if turnover is high, worker morale may suffer (Lambert, 2001). Consequently, turnover wipes out the benefits that organizations derive when they spend scarce resources attracting, selecting, and developing and retaining performing employees (Wright and Bonett 2007). For example, Hom and Griffeth (1995) argue that the cost of turnover is estimated at between 50 and 100 percent of employee's annual cost, yet this cost does not include that of the tacit knowledge taken out of the corporation by the leavers. Even though an individual's job satisfaction is evaluated by an accumulation of facets of the job or as a wide-ranging affective response to a general satisfaction, the totality of employees' job satisfaction has often been found to be negatively related to turnover (Griffeth et al., 2000, Wright and Bonett 2007).

Theoretically, employees who experience low levels of job satisfaction may wish to withdraw from the job if they are not empowered to vary their job characteristics. This is because; some studies show that higher levels of personal control are related to job satisfaction (Liden et al., 1993; Thomas and Tymon, 1994). Accordingly, employee empowerment is more likely to manifest at higher levels of job satisfaction (Thomas and Tymon, 1994). They further assert that assessments of empowerment generate intrinsic rewards and therefore should be positively related to job satisfaction.

## **Methodology**

This research is based on an empirical survey of employees in a large public sector organization in Ghana. The choice of a quantitative survey was to test the Minnesota Satisfaction Questionnaire (MSQ) (Weiss et al., 1967) in a typical Sub-Saharan African country.

### *Sample and procedure*

Respondents were drawn from a large public sector organization in Ghana. Based on samples provided by the HR department in the organizations, 200 questionnaires were distributed to employees in a governmental organization which resulted in data from 100 usable questionnaires.

*Instrument*

Due to its ease of completion and general acceptance as a research instrument, the MSQ short form was used to measure job satisfaction for public sector employees. The MSQ was modified to include a biographical data consisting of categorical items like gender, education, and job position. The MSQ (Weiss et al., 1967) is a good standard for measuring the overall outcomes of employees’ intrinsic and extrinsic job contexts. The long form of the MSQ consists of 100 items, 5 items per facet. While the short form was also created for research purposes, and consists of 20 items (1 item per facet), which are also divided into intrinsic and extrinsic job context items. Each item is measured by a Likert-type scale from 1 (very dissatisfied) to 5 (very satisfied) (Likert, 1932). General satisfaction of employees is determined by measuring all 20 items, and scores for each respondent’s intrinsic, extrinsic, and general satisfaction are calculated by adding the scores for the related questions. It is recommended that the validity of the short form may be inferred from the validity of the long form (Weiss et al., 1967). Thus, a study by Hirschfeld (2000) concluded that revising the MSQ short form resulted in no significant difference in the factor structure (Hancer and George, 2003).

**Results**

*Participants*

The demographics of the respondents are shown in Table 1 below. Of the total respondents, 52% were males and 48% were females. The total mean score of job satisfaction for male and female respondents were 6.1 and 5.6 respectively. With respect to education, more than 73% of the respondents indicated that they had some secondary or post- college education, with 66% of these respondents attaining tertiary status. All respondents were full-time employees in the judicial service, and all job categories in the service were represented.

**Table 1:** Descriptive statistics of Job satisfaction score

Gender and Education	N	Mean	Std. Deviation	Std. Error Mean
Male	52	6.0769	3.22395	.63227
Female	48	5.6667	3.49702	.60875
JHS/Middle school	20	3.4615	1.72582	
Secondary school	14	6.6923	1.80597	
Tertiary education	66	5.7692	2.5704	

*Analysis of Results*

Overall job satisfaction score were converted to percentile scores using the normative data provided for the short form of the MSQ (Weiss et al., 1967). Using these percentile score, it is easy to determine employees’ score with respect to low, average, and high levels of job satisfaction. Weiss et al. (1967) suggested a percentile score lower than 25 would indicate a low level of satisfaction and a percentile score higher than 75 would indicate a high level of satisfaction. However, and in this present study, respondents were categorized as having high job satisfaction with a percentage score of 50% and above, and a lower level of job satisfaction with a percentage score of 35% and below. Table 2 below presents the overall results of the various percentile scores on the twenty variables measured by the respondents. The twenty variables measure both intrinsic and extrinsic attitudes of employees’ satisfaction including their general satisfaction contexts in the organization.

**Table 2:** Percentage Distribution of Responses

<b>Variables</b>	<b>Very dissatisfied</b>	<b>Dissatisfied</b>	<b>Neutral/Not sure</b>	<b>Satisfied</b>	<b>Very satisfied</b>	<b>Total</b>
Being able to keep busy all the time	6.0%	50.0%	2.0%	38.0%	4.0%	100.0%
The chance to work alone on the job	18.0%	20.0%	42.0%	12.0%	8.0%	100.0%
The chance to do different things from time to time	16.0%	29.0%	35.0%	18.0%	2.0%	100.0%
The chance to be “somebody” in the community.	5.0%	4.0%	56.0%	35.0%	0	100.0%
The way my boss handles his/her workers	12.0%	16.0%	38.0%	34.0%	0	100.0%
The competence of my supervisor in making decisions	3.0%	3.0%	8.0%	40.0%	46.0%	100.0%
Being able to do things that don’t go against my conscience	4.0%	7.0%	50.0%	35.0%	4.0%	100.0%
The way my job provides for steady employment	5.0%	51.0%	26.0%	7.0%	11.0%	100.0%
The chance to do things for others people	2.0%	7.0%	5.0%	52.0%	34.0%	100.0%
The chance to tell people what to do	6.0%	15.0%	46.0%	20.0%	13.0%	100.0%
The chance to do something that makes use of my abilities	5.0%	11.0%	20.0%	55.0%	10.0%	100.0%
The way company policies are put into practice	18.0%	35.0%	29.0%	16.0%	2.0%	100.0%
My pay and the amount of work I do	38.0%	45.0%	6.0%	9.0%	2.0%	100.0%
The chance of advancement on the job	12.0%	8.0%	18.0%	20.0%	42.0%	100.0%
The freedom to use my own judgment	18.0%	35.0%	16.0%	29.0%	2.0%	100.0%
The chance to try my own methods of doing the job	11.0%	51.0%	26.0%	5.0%	7.0%	100.0%

The working conditions	12.0%	52.0%	20.0%	16.0%	0.0%	100.0%
The way my co-workers get along with each other	3.0%	3.0%	46.0%	40.0%	8.0%	100.0%
The praise I get from doing a good job	16.0%	35.0%	29.0%	18.0%	2.0%	100.0%
The feeling of accomplishment I get from the job	8.0%	40.0%	41.0%	4.0%	7.0%	100.0%

Note: MSQ = Minnesota Satisfaction Questionnaire.

A percentile distribution with scale ranged from 1 (very dissatisfied) to 5 (very satisfied).

## DISCUSSION

In this study, the MSQ short form was used to examine the concept of job satisfaction among employees of a public sector organization in Ghana. The results of the study suggest that employees' intrinsic and extrinsic motivations may be critical for the relationship between best HRM practices and employee outcomes. More specifically, the perceived dissatisfaction of the employees is very risky for the overall performance of governmental organizations and services. From the scores, it can be concluded that employees of the Ghanaian organization chosen for the study exhibit a moderately low levels of overall job satisfaction. The examination of the results of the MSQ factors showed only two factors out of the twenty factors receiving high satisfaction levels ('The chance to do things for other people', and 'the chance to do things that make use of my abilities', 52% and 55% respectively). At the same time, the study results showed moderately high levels of employee dissatisfaction in both intrinsic and extrinsic factors. For example, findings showed that, 'Being able to keep busy all the time', 'The way my job provides for steady employment', and 'The chance to try my own methods of doing the job' scored percentages of 50%, 51%, and 51% respectively in terms of dissatisfaction. Also, while 45% and 38% of employees expressed 'dissatisfied' and 'very dissatisfied' respectively, only 9% and 2% expressed 'satisfied' and 'very satisfied' respectively in terms of 'my pay and the amount of work I do'. This is very dangerous for HR practice since pay needs to be adequate and equitable to enable employees meet the demands of rising goods. Particularly, in developing economies where money plays an important role in the exchange of goods because, most of these economies do not produce or manufacture goods but, rather consume or import everything available. Thus, low pay structures may lead to employees devising other means of eliciting for more money in the form of bribery through corruption to meet their needs. Jackson (2004) professes that employees in Africa would tend to derive their personal goals from a complex set of sources. It is therefore not surprising, as findings of the study showed that 55% of employees said they were satisfied with 'the chance to do something that makes use of their abilities'.

These results support a significant situational impact on job satisfaction and consequently job performance of Sub-Saharan African economies. While Judge et al., (2001) argue that the common and most accepted aspect of job satisfaction is the satisfaction with pay, it is demoralizing to see that majority of respondent are dissatisfied with their pay levels in this study. This goes to reinforce the low levels of employee job satisfaction and motivation to work in Sub-Saharan Africa organizations (Okpara and Wynn, 2007).

It is interesting to note also, that only 5% of respondents said they were satisfied with 'the chance to try my own methods of doing the job', while 7% said they were very satisfied with the



same variable. This presupposes that majority of respondents are not given the opportunity to use their own initiatives at work. This definitely brings about job dissatisfaction as employees are not motivated to try their own ways of doing things. This is in consonance with Ashforth's (1990) findings that perceived lack of opportunity to have an impact on the organization may possibly lead to job dissatisfaction of employees, and ultimately high turnover rate (Wright and Bonett, 2007). This finding is also consistent with Kuada's (2010) assertion that most African employees have the inclination of following every aspect of their superiors' instructions at the detriment of their own creativity.

Findings of study also showed that, only 2% and 18% of employees said they were 'very satisfied' and 'satisfied' respectively for receiving praise from doing a good job. This is very unfortunate, and can lead to serious employee de-motivation since rewards in the form of praise is not encouraged. More so, only 7% and 4% of respondents said they were 'very satisfied', and satisfied respectively for the feeling of accomplishment they get from the job.

Thus, and in general terms, the findings of this study demonstrate a short fall of employee satisfaction in their work organization. It is noteworthy to find that even employees are not satisfied with the way companies policies are put in practice. An organization that does not put into practice its policies seizes to be an effective one, given way to ad hoc measures to be adapted.

### **Conclusion**

The primary objective of this study is to identify the factors that affect job satisfaction of the public sector employees in Ghana by testing the MSQ. The secondary aim of the study is to add to the existing literature by testing the MSQ in a Sub-Saharan African country. The outcome of this study highlights the role of individual factors, and organizational weaknesses of HRM practices in a typical Sub-Saharan African country, and provides an alternative pathway in employee satisfaction and performance.

Overall, the study shows that there are low levels of job satisfaction among the employees in the public sector in Ghana. The general satisfaction contexts show a high level of dissatisfaction of employees among the very important facets of employee motivation.

### **Limitation of study and future research**

In this study, we tested the MSQ short form in a typical Sub-Saharan African public sector organization, and found support for a general measure of meeting satisfaction levels similar in structure and content to the MSQ facet measures. In identifying the limitations of this study, it is suggested that the study be expanded to a larger sample containing individuals from many public sector organizations in a larger geographical area. Also, future work would benefit from examining alternative facets of employee satisfaction measures that are not found in the MSQ. Additional work is thus needed to examine key drivers of employee job satisfaction contextual to Sub-Saharan Africa.

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## **Educational Policy Reforms in Nigeria Higher Education: The Process of Change**

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*Higher education in Nigeria faces arrays of challenges including admissions of students, financial pressure, manpower etc. Saint, et al (2003) classified Nigerian organisational environment as distorted and restrictive. This article recognises the need for policy changes in Nigerian higher education to address these challenges and be in line with international practices. The focus of this paper is on educational policy reforms in Nigerian higher education. It is however unlikely to determine a single organisational change process model that fits all changes because change processes remains complex and challenging for organisations. The paper presents approaches to process of change using insights from the work of Barry, Berg and Chandler who contended that analyses of change from the proponent of managerial and governance suffer from a one-sided view of the change process. It is argued that the process of change in Nigerian higher education adopting traditional model took little account of the aspirations, desires and expressed preferences of those whose governance they seek to ensure. This paper argues that environment where the organisation operates is important in the change process. Environment affects the operation of all organisations which are organised in diverse ways (Scott, 2010). The paper concludes by arguing change process model is informed by institutional culture within an environment –recognising that organisational culture impact on the process.*

### **Introduction**

The concept of change is very complex and yet it is the only thing that is constant. Environments continue to change and organisations must respond to these changes. One of the problems of introducing reforms in organisation is to determine the appropriate reform agenda and when to introduce the reform. In order to assess the reforms agenda, it is important to examine the change process with a view to understanding the causes and effects of changes in the environment. This paper examines the importance of higher education to the country's economy and the desirability to introduce reform in order to improve the educational sector. It examines the different types of models used in analysing change process and suggested a model that critically analyse the process of change through interactions. Most of these reforms failed because the change process had been adequately analysed.

A country's productivity is generally influenced by the quality of its higher education and which also enables it to compete in the global market and increases the standard of living of its citizen (Ogbenekohwo and Abu, 2011). Besides the important role quality education plays in the economic development of a nation, the provision of education by a government is one way of facilitating the enjoyment of right to human dignity and freedom of information (Jekayinfa and Kolawole, 2003). Moreover, quality education is required in the country so that graduates would be able to compete globally. Changes in the global education therefore continue to affect the Nigerian educational system which necessitates reform agenda to meet up with the global challenges.

The priority of the Federal Government of Nigeria is to improve the quality of education at all levels. In pursuing this objective, the government introduced reforms in the National Policy of Education. The federal government is responsible for guiding and driving the Nigerian education reform, setting standards and ensuring that implementation is adhered to at all level (Geo-Jaja, 2004). The area of concern in the implication of National Policy of Education is access to higher

education (admission) (Obanya, et al, 2005). However, despite many reform programmes, the Nigerian Education system has been facing crisis which is making it difficult to meet the yearnings and aspirations of Nigerians (Adeyemi, 2001).

Ocho (1995) grouped the crises in Nigerian educational system by period. Ocho (1995) identified the crisis of 1942-1954 as the crisis of irrelevance, 1955-1969 as crisis of unequal expansion, 1970-1983 as the crisis of unplanned expansion and 1984-1994 as the crisis of financial inadequacy. According to Nwagwu (1997) poor and unstable leadership are the factors responsible for various crises which are plaguing the Nigerian education system. Daramola (2003) argues that problems of Nigerian education include the responsibility for and control of the society's education, insufficient resources and capacity required to maintain these organisations as a result of fast growing population and which the federal government could not provide.

### **Addressing the Challenges**

Education in Nigeria faces various challenges. The roles of tertiary educational organisations have been changing from providing trained manpower and creating knowledge to supporting local, regional and national economic development (Curri, 2008). This challenge and other crisis in the sector were addressed with the introduction of reforms. The federal government therefore continues to initiate reforms in educational policy with the aim of bringing the educational system in line with international good practice (Saint, et al, 2003).

Over the years the educational objectives continue to change with the introduction of different policies on education. New higher education policies have been initiated in Nigeria. They respond to long- fostering problems of access, quality financing, governance and management within the nation's federal universities and seek to them more in line with global good practices (Saint, Hartnet and Strassner). The effects of these reforms was changes in the organisational structure as Lawton and Rose (1994) pointed out that changing structures has often tended to be the focus of reforms in the public services.

Education in Nigeria has evolved over a long period of time, with a series of policy changes. The 1976 Universal Policy Education Programme gave every child the right to tuition free primary education. Later, the 6-3-3-4 system was introduced, establishing six years of primary education, followed by three years of junior secondary school and three years of senior secondary education. The last segment of four years is for university or polytechnic education. The change in structure often affects the objective of the educational institutions. There was a change in focus in delivering quality education to revenue generation. This is because some of the institutions of higher learning were not adequately funded and require fund to cover administrative and capital projects in their various institutions.

However, Continuous changes in the educational policy in Nigerian higher education system have been a major concern of the government and other stakeholders. In 2005, the honourable minister of education asserted that there are problems that continue to keep standards and quality of education low in tertiary education. She attributed these problems to admission of candidates beyond organisational capacity thereby neglecting quality control. See appendix 1 for the address of the honourable minister. Some other policies like quota system and Post JAMB examination were therefore introduced to address problems inherent in the admission policies. Prospective students seeking admissions to higher institutions were subjected to various examination conducted internally by institutions in order to confirm the suitability of such candidates for programmes applied for.

The process of change is directly related to reform agenda. It is important to understand the process of change so that appropriate reform programmes could be developed and the implementation could be actualised with minimum problems. However, approach to understanding the process of change had not been adequately grasped which is therefore affecting the nature of reform programmes.

In Nigeria higher education, one approach to the process of change was mechanistic. Osterman and Kottkamp (1993) believe that mechanistic types of approach to reforms is where outsiders will be hired to find solutions to certain problems and people in the organisation are told to implement the reform agenda. Another approach was imposition of rules and laws and this has been part of many of the changes in the public sector and these pose problems (Isaac-Henry, et al, 1994) for public sector organisations despite many initiatives on their part.

The level of educational development in Nigeria and the objective of education do not require the principles of profit orientation in the public sector. The stage of education in Nigeria is to improve productivity or quality of education and not necessarily efficient utilisation of resources with a view to making profits (Daramola, 2003). Public sector organisations are regarded as not-for-profit organisations and these are organisations (Titman, 1995) that do not aim to make a profit in the normal sense e.g. educational institutions, government hospitals, charities etc. The principle of generating profits in the public sector organisation was introduced in the educational sector through admitting more candidates and increasing tuition fees.

The process of change comes up against powerful resistance (Heller, et al, 2004). Resistance to change is based on the premise that people thrive on stability, continuity and have tendency to resist any force that will disrupt this condition. According to Kyriakidou (2011; p. 584) *“employees interpreted change as non-engaging when they perceived change as not being appropriate within the institutional values and beliefs in academia”*. This resistance led to the failure of many of the reform agenda. Omolewa (2008) argues that education reforms in Nigeria have always been a failure. Naschold (2009) pointed out that most unsuccessful reforms are because of the failure to recognise that political and administrative system which differs greatly and depending on substantive structure and the time of introducing the reform. The relevance of the reform agenda to the values and culture of the organisation was another factor in the resistance to the reform programme.

The failure of the reforms is in part the inability of the leaders to assess the reform agenda and continuously monitor its progress. Reforms are treated as an event rather than a continuous process which needs to be monitored. Moreover, institutional environment are changing becoming more complex with the changing expectations by external agencies and government (Curri, 2008).

### **Analysis of change process**

In order to address the problems and failure of the reform programmes, other approaches in analysing the process of change is therefore inevitable. The approach that would recognise the environmental and organisational culture is comprehensive and important in understanding the process of change. The dynamism of the environment determines how change is perceived at a particular time. Greiner (1972) contends that organisations must meet with the environment in stormy, critical periods of growth and change. Both public and private sector or even the third sector organisations respond to changes in their environment which affect the internal interactions.

Therefore, the approaches to the understanding of change themselves continue to change over time. These approaches sometimes are complementary and sometimes contradictory. The assumption of institutional philosophy is that “*organisations are coerced into change by pressures from within their institutional environment*” (Graetz and Smith, 2010; p142). Morgan and Study (2000) argue that where organisations are seen as adapting to ongoing change in its environment, this type of change process is perceived as continually changing, routinely, easily and responsively.

Culture is central to the change process and to the attainment of strategic objectives. Achieving reform objectives require an awareness of existing and current organisational culture within public sector organisations (Parker and Bradley, 2000). Burack, (1999) views organisational culture as the particular way things are done. This includes the organisation’s shared values, routines, style, myths and symbols. Culture emerges, grows, matures and dies but is not static (Barnard and Walker, 1994). Therefore imposing change according to Graetz and Smith (2010) means fighting entrenched sets of values and beliefs shared by organisational members.

There are different models in the literature used in analysing the change process. Kurt Lewin (1951) used three -stage model to analyse the change process. These stages are unfreezing, change and refreezing. Force field analysis provides an initial view of change problems that need to be addressed, by identifying forces for and against change (Johnson and Scholes, 2002). This three-step model can be applied to continuous change process according to Hannagan (2008): The first process of unfreezing is to allow staff to think through the impending change. The management attempt to make it obvious so that individuals and teams can easily recognise and accept it. According to Hunt (1992), the unfreeze phase of learning is overcoming people’s insecurities and apprehensions.

The second phase of learning occurs when the insecurities have been reduced; people relax and become hooked onto the learning experience. Here, changes in attitude or behaviours are much easier as people move with the learning experience rather than resist it (Hunt, 1992). The third phase, refreezing- the new practices are locked into place by supporting and reinforcing mechanisms so that they become the new norm. Hunt believes that the learning phase has limits. People cannot absorb more than a small amount of information at a time, so the re-freeze phase is recognition of that truism. He went further that the learning should be consolidated through summaries, questions or structural devices (new job descriptions, new manuals, etc) and breaks the learning curve by ending the training or information session with a coffee break or a return to normal work.

The model of Kotter (1995) recognises that the change process involves a series of phases. The eight steps to transform the organisation according to Kotter (1995) are: establishing a sense of urgency, forming a powerful guiding coalition, creating a vision, communicating the vision, empowering others to act on the vision, planning for and creating short-term wins, consolidating improvements and producing still more change and institutionalising new approaches.

Although this approach is simple and still relevant as leader-centred model of organisational change (Graetz and Smith, 2010), the classification however failed to consider human side of the organisation whereby people cannot be treated as machines. The traditional view of organisational change in the organisational world, which considers it as the product of economic environment acting upon organisation structure, fails to take into consideration the important role played by social constructionism (Webb and Cleary, 1994). Therefore according to Almaraz, (1994), change rarely occurs in stable, slow-moving environments as suggested by Lewin.

In modern times, the types of changes required in organisations have become complex because of the complexity of organisations and their environments (Almaraz, 1994). The complexity of change could be adequately grasped with the use of scripts unlike the use of traditional stage models. Barley and Tolbert (1997) regard scripts as enacted through day- to- day interaction and perceive scripts as behavioural regularity. It is through scripts that institutions are being enacted. Many organisations are faced with major, core change, which represents a radical departure from the old ways of doing things (Nadler and Tushman, 1989). Organisational events are better understood using scripts as effective tools and also provide a guide to appropriate behaviour (Gioia, and Poole, 1984). Scripts may be used to reinforce activities based on faulty assumptions and perceptions.

Organisational scripts yield valuable insights regarding organisational structure, its activities, and knowledge. Gioia and Poole (1984; p. 458) argue that scripts “*provide both a framework for understanding the action, events and behaviour occurring in organisation as well as a framework for the understanding of how people understand and perform their own behaviours and action within organisation*”. Scripts are also used to depict procedural knowledge structure or schema for understanding and enacting behaviours, as a basis for vicarious learning activities. However, scripts have been criticised on the basis that they could be counterproductive especially scripts that have detailed guidelines (Weinberger, et al, 2005).

Scripts provide a useful means of understanding the observed interlocked behaviours of organisational members (Poole, et al, 1990). They therefore provide inferences or expectations that can become guides to overt behaviour. They aid both the performance and understanding of conventional activities (Gioia and Poole, 1984).

## **Conclusion**

This paper discussed the importance of quality education to the development of the country and recognised that reforms are inevitable in a continuous changing environment. It maintained that reforms were aimed towards improving the educational sector in Nigeria and argued that the business principles of generating revenue in educational institution would only result to changing in focus of various higher education of learning. The characteristics of reforms and applicability of business principle seems to be an event rather than a process. The failure of the reforms is in part the inability of the leaders to assess the reform agenda and continuously monitor its progress. Reforms are treated as an event rather than a continuous process which needs to be monitored. Most of these reforms were not sustained and to sustain change in the environment, it is a collective effort of all the stakeholders.

The paper examined some models used in analysing change process and argued that some of these models could not adequately explain the process of change as human interaction can lead to actions that could not be predicted. The complexity of change could therefore be analysed effectively through the use of scripts. Rosenbach and Taylor (2001) argued that changes in the environment require corresponding changes in the methods by which the organisation plans, organises, and directs its energies toward mission accomplishment. It is the use of scripts as a tool of analysis of organisational change that could explain the interactions of various stakeholders which explains the institutionalisation process. Most educational reforms have substantial financial implications. This issue is rarely given the priority it deserves. Proper funding for educational reform programmes can only be achieved by an increase in national education budget which can be realised by looking for new financial sources.



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## **Information Systems and E-Business**

## **Nigerias 2011 general election and 2015 electronic voting (E-voting) system**

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The paper presents Nigeria's 2011 General Election and 2015 Biometric (Electronic voting) system. The objective of this paper is to ensure a complete use of Biometric voting system in Nigeria by the year 2015 to achieve a fair and free election. The paper adopts the critical, theoretical and documentary research methods in describing Nigeria's 2011 general election and 2015 electronic voting system. The paper recommends:

- That Nigerian government should establish voters list updating;
- Provide a biometric data base of all Nigerians both at home and abroad;
- Provide constant power supply to effectively support the use of biometric system;
- Maintain adequate security for the E-voting system; and
- Leaders to fulfill their obligations and have fear of God in execution of their duties.

### **Introduction**

In the past, National elections both the Presidential, the Governorship, the National and State Assemblies that have been conducted from 1965 to 2007 were characterized with violence and election malpractices in Nigeria. At this period, extensive protests as a result of these irregularities hampered democratic process, and led to the death of an estimated 2000 Nigerians in the Western Region in May, 1965. In 1979, 1983, 1999, April/May 2003 and April 2007 general elections also witnessed violence, and virtually all the election results were contested in court (Dayo, 2008). Nigerian politicians acquired or retained political support, wealth and influence through the use of all manners of electoral malpractices. Killings, assassination of prominent Nigerians, rioting and stealing of ballot papers, boxes and destruction of properties were visible. Also, a number of electoral verdicts were rescinded as a result of evidence that results were manipulated and falsified. Further, the 1992 election results were annulled by the military government under the power of General Ibrahim Babangida as a result of claimed electoral fraud. In addition, the election results of June 1993 were also annulled on June 12, 1993, thereby denying the acclaimed winner, Late Chief Moshood Abiola the mandate of the people. Again Babangida claimed electoral fraud as the reason for the annulment of the results of the election.

In spite of Pockets of violence that erupted in the last April 2011 election, 2011, malpractices, irregularities and more violence were brought to the barest minimum as a result of the introduction of the partial use of the Biometric voting system.

### **Theoretical Background**

As a result of the continued development in Information Technology, Several countries have instituted different forms of e-voting projects. In January, 2010, United States of America, Australia, Brazil, Canada, France, India, Japan, Kazakhstan, Russia, Venezuela, Peru and United Arab Emirates had legally binding electronic voting system (Dayo 2008).

Also, Austria, Canada, Estonia, France, Japan and Switzerland have legally binding Internet voting. For example, on June 1, 2003, French Citizens residing in the United States were given the opportunity to validly elect their representatives to the Assembly of the French citizens abroad by remote e-voting. Also in 2001, Estonia started the e-voting. In 2003, Austria started e-voting (<http://aceproject.org/ace-en/focus/e-voting/countries>, 2011).

Engineer Timasaniyu Ahmed-Rufai – Managing Director/Chief Executive of Nigerian Communications Satellite Limited (NIGCOMSAT) with his efforts along with Nigerian engineers put together an “e-voting solution” which he thinks will save the country huge funds and perfect electoral system in 2015. This system has been successfully demonstrated to INEC chairman, Professor Attahiru Jega including the entire process for registration, verification, voting and tallying. This system has been recently utilized to conduct election for the NIGCOMSAT multipurpose cooperative society and was monitored by members of staff locally and internationally using various web enabled devices such as blackberry, Ipad and PC (Adaramola, 2011).

### **Methodology**

Employing the critical, theoretical and documentary research methods, this paper reviews the electoral process in Nigeria in 2011 and the coming 2015 election. The paper explores the importance of using Biometric Technology in achieving successful, credible and reliable elections in Nigeria.

### **Literature Review**

The essence of the near introduction of Biometric system that specifically employed the use of Direct Data Capture (DDC) in the last election was to an extent to resolve several challenges that visits Nigeria electoral process. Fraud is eminent at all levels of the electoral process in Nigeria. Generally, rigging of elections is now considered a positive way of winning elections. Winning elections in the past comes in two major ways – multiple voting by individuals, and declaration of false electorate results. Significantly, the Direct Data Capture (DDC) machines used in the last election presumably addressed the electoral fraud and ensured free and fair elections in the April 2011 general elections as no two individual can have the same finger prints. The purpose of the DDC machines was to capture the data of prospective voters and not for voting during the election. To achieve this objective the Federal Government allocated ₦70 billion. The Direct Data Capture is merely a device that enables the capture of a representation such as image, speech etc (Dayo, 2008).

### **2011 Voter’s Registration and Accreditation**

The 2011 accreditation was faced with frustrations and tortuous conditions such as staying under scorching sun for hours and hours before getting accredited. The accreditation was manually conducted before the voting took place each day. This exercise was slow, tortuous and not cost effective.

For example, voters turnout in the Federal Capital Territory (FCT) was very impressive; but the number of people still on the queue after midday of the accreditation was enormous, which translates that accreditation will take a little longer than usual (Akinrujomu, 2011).

As voters' accreditation came to an end everyday at about 12 noon as stipulated by INEC (Independent National Electoral Commission) crises of late accreditation brewed among party agents in most of the polling units as they argue when proper voting should commence. Some want voting to commence by 12 noon, others insist that it should commence by 12:30pm. This is due to the fact that accredited voters are already in the queue waiting to be counted before the commencement of the actual voting exercise. For instance, officials battled with accreditation at Opebi Grammar School polling centre along with other centres in the country.

### **2011 Election and Use of Biometric System**

The 2011 election was credible, transparent and successful, though with some human and material set backs.

Biometric technology as explained above involves having a database that has stored all citizens information that can be used for proper authentication and identification of their persons.

In employing full biometric technology in e-voting, proper information of legal potential voters will be captured and stored in the Database server that will be developed. The captured information will include voters' personal data, 10 fingerprints, facial scan, iris, etc.

A fully employed biometric system will verify, validate, and authenticate the information that has been entered during registration for each individual registered voter. Successful verification of the entered information will lead to a successful vote.

The verification process begins with the authentication of the voter's identity number, followed by the finger print, face recognition and the iris. Failure of any of these verifications for a specified number of times terminated the voting process, and the Database server will take note of the failure.

On the other hand, the 2011 election in Nigeria fell short of incorporating a complete use of Biometric data of all Nigeria citizens both at home and abroad. The biometric system only achieved to some extent the registration of Nigeria citizens. For instance, a voter lamented: this is the first time voters registration would be handled for just in three weeks. In the past, the exercise ran for weeks; government agencies and politicians would embark on vigorous sensitization programmes, and yet many citizens would choose to go about their business without registering.

Had this system been fully incorporated and implemented, the frustrations and long waiting during the registration and accreditation exercise of the electorates would not have occurred.

### **Benefits and Challenges of 2011 Elections**

The 2011 Nigerian General Election witnessed some benefits and challenges.

Benefits include:

- Massive turnout of prospective voters which overwhelmed the registration officers.
- At this time the citizenry were willing to be listed as they had little hope in the use of Biometric data machine.

- The first time in Nigerian history that voters registration was handled in three weeks. In the past, this form of exercise ran for weeks; government agencies and politicians would embark on sensitization programmes and yet many citizens would choose to go about their businesses without registering.
- Most of the registration centres were barely invaded by prospective registrants as opposed in the past.
- Some form of remuneration was offered. Some State Government declared public holidays in order to allow their citizens register while a couple of others tied payment of salaries to the possession of the prized document (voters' card). The card is also a form of an identity card and was recognized by the banks in the recent accounts update exercise.
- The electronic machine has the capacity of capturing 10 finger prints of voters. This measure was taken to prevent citizens from registering twice. If one finger print was captured, there is the possibility of going to another centre and register with the remaining finger prints.
- Handicaps were accommodated to exercise their rights.

#### **Challenges Include: Human and Material**

- Inability of the machine to capture biometric data of registrants.
- Inadequate training – Some of the registration officers largely from members of the National Youth Service Corps (NYSC) initially found it difficult to operate the Direct Data Capturing (DDC) machines.
- The laptops go off after 60 minutes on battery power.
- The machine was slow in capturing finger prints of people.
- In most cases, there is no electricity to recharge the laptops.
- There were frustrations
- There was also long waiting and queuing at the registration centres. (Akinrujomu, 2011).

One registrant commented: “I have been waiting and waiting. The other time, they said there was no light and the battery was dead. Most of the time the machine was slow in capturing finger prints of voters. I was going and coming back, the same story. Thank God I have done it.” (Ndujihe, 2011).

- Some centres use generators donated by residents.
- Some centres asked voters for fuel money for generators before they could be registered.

#### **Evolution of Electronic Voting (E-Voting) Technology In Nigeria**

The development of E-voting system technology is credited to Engineer Timasaniyu Ahmed-Rufai (Director/Chief Executive of the Nigerian Communications Satellite Limited (NIGCOMSAT). According to Rufai, this development is premised on the fact that Nigeria is well known by the international community for her inability to conduct credible, transparent and reliable elections that are crucial to the provision of the dividends of democracy to her teeming populace. Every quarter of a decade, Nigeria prepares for yet another election to determine who takes over the helm of affairs. The lack of enthusiasm displayed by Nigerian electorate came as disillusionment as a result of previous elections that have been marred by gross and wanton irregularities and lack of credibility thereby failing to involve the electorates in the process of electing a candidate of their choice.

As a result, Nigcomsat's Printed Circuit Board (PCB) and Microelectronics centre of the Research and Development, embarked on a mission to mitigate the aforementioned issues. This was achieved by proffering an *electronic solution* to the existing *manual system* which is slow,

tedious, bulky, unattractive and erroneous, as a means of providing a more secure and reliable system in which the electorate can have their votes count thereby shoring up confidence in the electoral process.

The electronic nature of the system moderates the level of human interactions with the system, thus diminishing its disposition to election, irregularities, malpractices and human errors. The complete proof and adaptable technology can instantaneously give collated results if communication links are provided to all polling units from local, state to national levels. The estimated design and development time of both the hardware and software components will take 3 months for completion (Adaramola, 2011).

### **How Does The E-Voting System Work?**

The E-voting system is system that is developed by Engineer Tamasaniyu Ahmed-Rufai with his team of software and hardware engineers of the Research and Development department of Nigcomsat Ltd. For the system to work, it will primarily adopt two technologies (a) Radio Frequency Identification (RFID) and Biometrics. The RFID is a technology that offers huge potential for automating processes, as well as providing accurate, reliable data. Its peculiar feature includes provision of a globally unique digital identity to each physical object. This technology comprises of two major units – tags and interrogators. RFID tags are known as transponders that listen to radio signal sent by transceivers/interrogators/Readers. When a transponder receives a radio query, it replies by sending a unique ID back to the interrogator for further processing. Biometrics technology on the other hand, provides means of recognizing humans based on an intrinsic physical trait unique to every individual. (Adaramola, 2011).

In order to reduce the problems of voters registration as experienced in the last 2011 general Election, especially the cost of compiling voters list, it is better to adopt *AUTOMATIC VOTERS REGISTRATION AND ACCREDITATION* listing as being implemented in many countries like Germany, Finland, Denmark, Norway and Taiwan etc. Using an Automated Accreditation Machine would have saved Nigeria millions of Naira. Officers without doubt seriously battled with accreditation.

### **Sections of the Proposed E-Voting System of Nigcomsat**

The e-voting system under Rufai's technology solution is grouped into three parts:- (i) Registration, (ii) Voting and (iii) Collation.

a. **Registration:** The Registration will directly capture the details of voters and stores it in a smart card and the details are sent remotely to a database in the election headquarters. It will consist of both hardware and firmware units combined to acquire and locally stores voter's data such as fingerprints and personal data.

b. **Voting Starts:** with the verification of the voter. This is very essential to eliminate multiple voting. In furtherance, after the verification, voting starts. The voters follow the instructions to select the candidate in a polling boot. Before saving the details, the voter is prompted to confirm their selection and then a field is sent in the card to show what election the voter casted his vote for.

c. **Collation:** While voting is taking place, collation is also taking place simultaneously and the results are displayed real time on a web-based application. The casted votes are counted in real time. The votes can be viewed by all but cannot be modified. The communication link between the voting terminal and remote central database is protected against intruders. So, voters, can view results and monitor the progress of their candidate via the web (Adaramola, 2011).



## Biometric System and E-Voting In Nigeria

Biometric is the science of measuring individual body characteristics (Thompson and Cats-Baril, 2003). Turban et al (2006), defines biometric system as an “authentication system that identify a person by measurement of a biological characteristic, such as finger prints, Iris (eye) patterns, facial features or voice etc.

Biometrics is nothing other than the business of identification. An identification happens in two different stages – having a suitable record or database of people to identify, and then actually verifying identities against a precompiled database containing records. In this instance, if someone presents himself/herself to be verified, his/her details will need to have already been recorded for that person to be recognized as someone. If the person’s details are not collected and stored in a database, then the person will be tagged as someone who was not registered.

The INEC 2011 registration exercise had lots of bottlenecks. All this registration exercise did was only to register citizens with the hope that it will do away with multiple voting and ensure integrity in the process. This hope was not possible to an extent.

Biometric systems can *identify* an individual from a population of enrolled users by searching through a database for a match based on the person’s biometric trait or the system can *verify* a person’s claimed identity by matching the individual’s biometric trait against a previously stored version Turban et al (2006).

In order to implement a biometric authentication system, the physiological or behavioural characteristics of a participant must be scanned repeatedly under different settings. These scans are then averaged to produce a biometric template, or identifier. The template is stored in a database as a series of numbers that can range from a few bytes for hand geometry to several thousand bytes for facial recognition. When a person uses a biometric system, alive scan is conducted, and the scan is converted to a series of numbers, which is then compared against the template stored in the database.

Examples of different types of biometric templates include the following:

- \* **Fingerprint Scanning:** Fingerprints can be distinguished through various “discontinuities or irregularities that interrupt the smooth flow of ridges” on the bottom tips of the fingers. Ridge endings, dots (small ridges), and ponds (space between ridges) are examples of such discontinuities (Kroeker, 2002). In *fingerprint scanning*, a special algorithm is used to convert the scanned discontinuities to a set of numbers stored at the template. The chance that any two persons have the same template is one in a million. (Kroeker, 2002).
- \* **Iris Scanning:** This is the measurement of the unique spots in the iris (coloured part of the eye), which are then converted to a set of numbers that are stored as a template and used to authenticate identity. The iris is the coloured part of the eye surrounding the pupil. Within a second, a special algorithm can convert the iris scan to a set of numbers. The numbers can then be used to construct an iris scan template, which can be used in iris scanning, in which a camera scans a person’s iris, compares the scan to a template, and verifies the person’s identify.
- \* **Voice Scanning:** Differences in the physiology of speech production from one person to another produce different acoustical patterns than can be converted into a template that can be used in voice scanning. In most *voice scanning*, the speaker talks into a microphone or telephone. When the user wants to gain access to the system, the user simply repeats the spoken word and the voice scan is verified within 4 to 6 seconds.

- \* **Keystroke Monitoring:** This is based on the assumption that the way in which users type words at a keyboard varies from user to the other. The pressure speed and rhythm through which a word is keyed in are converted through a special algorithm to a set of numbers to form a keystroke template. The word that is employed in most of these systems is the users ID or password. The system checks the pressure, speed, and rhythm with which the word is typed against the templates in the database.
- \* **Signatures:** Signatures are matched against the presorted authentic signature. This system can supplement a photo-card ID system.
- \* **Photo face:** The computer takes a picture of your face and matches it with a presorted one. This is difficult in identifying identical twins. Template generation is vital here to allow proper recording of personal records.

### **The use of biometric voting (e-voting) for 2015.**

From the successfulness of the partial use of the biometric machine in the 2011 election, Nigeria's Independent National Electoral Commission (INEC) along with the Nigerian Computer Society (NCS) and Nigerian Communications Satellite Limited (NIGCOMSAT) declared their unwavering support for an electronic voting (E-voting) system for 2015 elections.

This decision has been forced as a result of serious allegations of vote rigging in the 2007 elections that brought the country almost to the brink of a violent conflict. The Nations Electoral Commissioner, Professor Attahiru Jega is determined to present another credible pool in the next five (5) years and sees e-voting as the best way to do so. Prof. Jega sees it also as the most reliable solution to electoral fraud, and malpractices that distorts the democratic process and risks electoral violence. He points to the fact that Mozambique; an African Country adopted this process in its last election with great success. (Adaramola, 2011).

INEC, NIGCOMSAT and NCS posits that electronic voting will overcome the problems of mass thumb printing of ballot papers, ballot stuffing, snatching of ballot boxes, voters impersonation, errors due to manual collation of results and multiple registration.

As a result, the INEC ICT Director, Engr. Emmanuel Akem said if an E-voting system is implemented that "Everybody will be happy at the end of the day as the citizens will see that elections are transparent, and politicians will be helpless at certain level to rig elections". The president of NCS, Professor Uwadia, further stated, "We do not have other choice than e-voting system for a transparent process in the 21<sup>st</sup> century knowledge economy"(Adaramola, 2011).

Significantly, the essence of e-voting rests on rather than increasing voters mistrust, electronic biometric voting builds and enhances public trust and confidence in the reliability and accuracy of the electoral process and results.

Finally, overwhelming evidence internationally has indicated that biometric voting can provide a guarantee of reliable, credible polls with result produced speedily and without any possibility of interference.

### **Advantages of Nigcomsat E-Voting System Over The Manual Electoral Voting System In Nigeria**

The advantages include that:

- i. It is biometric based, and there is no possibility of multiple voting.
- ii. Impersonation is impossible, i.e. one cannot take someone else's card and vote with it.
- iii. Invalid votes as a result of Ink smear in the traditional voting system is eliminated through e-voting system which is just by clicking.
- iv. Real-time online view of the system of the votes casted makes the system more transparent.
- v. Bulk paper works is eliminated by the e-voting system.
- vi. Possibility of human error is reduced.
- vii. It can be programmed for voters to vote from any part of the country for the candidate of his choice, thus eliminating the risk, cost and stress of traveling.
- viii. Nigerians in Diaspora can vote irrespective of their geographic location.
- ix. The network is highly secured one.

#### **Disadvantages**

- i. Fear of hacking when the machines are networked
- ii. Lack of adequate infrastructural amenities such as power and inadequate ICT access in some geographic regions of the country.
- iii. Literacy levels of the electorates are low.

#### **E-Voting and the Physically Challenged**

The new system with its combination of their RFID and Biometric system is suitable for non-handicapped voters by default. However, to accommodate the disabled, the system will support other kinds of authentication hardware like retinal/iris scanners and voice recognition system in order to allow for different methods of authenticating voters.

#### **E-Voting and the Law**

In Nigeria, for every election, there is a new law. There is also fresh registration of voters for every general election. For instance, the 1999 election that was conducted by the out-going military regime came with impromptu rules and regulations for the election. Also, the 2003 polls under the auspices of former President Olusegun Obasanjo – led civilian administration was conducted with the 1999 constitution along with 2002 Electoral Act. Another fresh registration of voters was conducted to replace the 1999 register. The 2007 elections were christened on the 2006 Electoral Act with fresh voters list compiled.

In like manner, the 2011 election passed through four Laws – Electoral Act 2006, Electoral Act 2010, Electoral Act 2010 (First Amendment) and Electoral Act 2010 (Second Amendment).

In light of the several changes in Law, Nigeria's INEC and NCS emphasized the need for sufficient time to be given for the adoption and implementation of technology needed for electronic voting. For instance, the INEC ICT Director, Engineer Emmanuel Akem stated that: "IF the Law was amended on time to allow for the use of electronic voting (e-voting) machine for 2011 elections, INEC would have come out with the best machine in the world otherwise it will be of no use if we are not given the mandate on time. If the Law is amended two years before elections, it will be implemented, but if it is amended six months before the elections, then it's of no use". (Tawiah 2011).

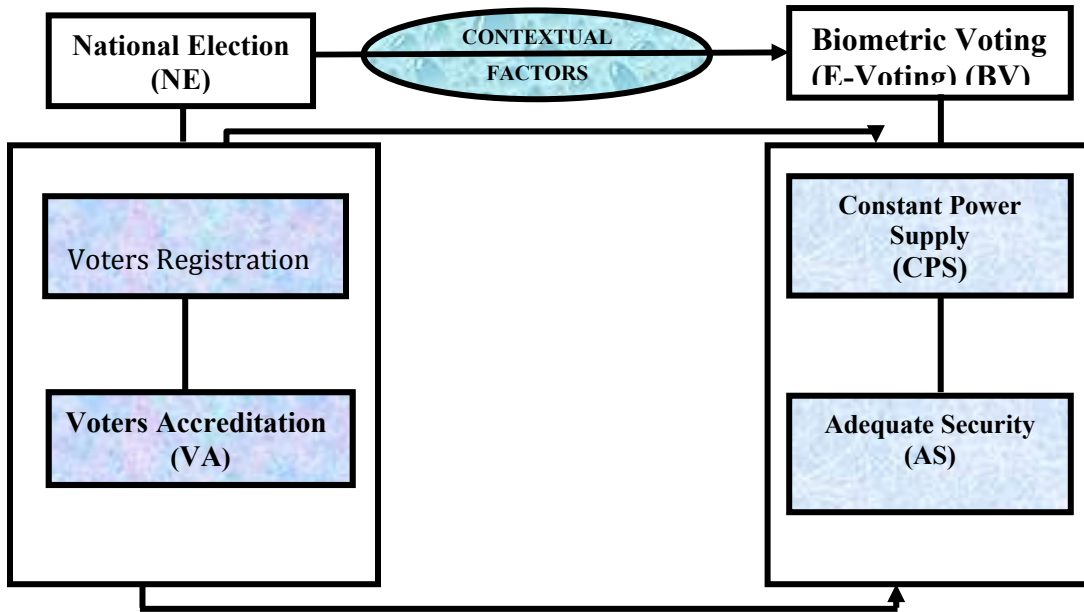
This translates to the fact that if the legislatures in Nigeria want to change electoral laws against the 2015 elections, it must do so two years before the elections in order to allow INEC adequate

preparation in the provision of the electronic machines to allow time for adequate training of personnel come 2015 general election.

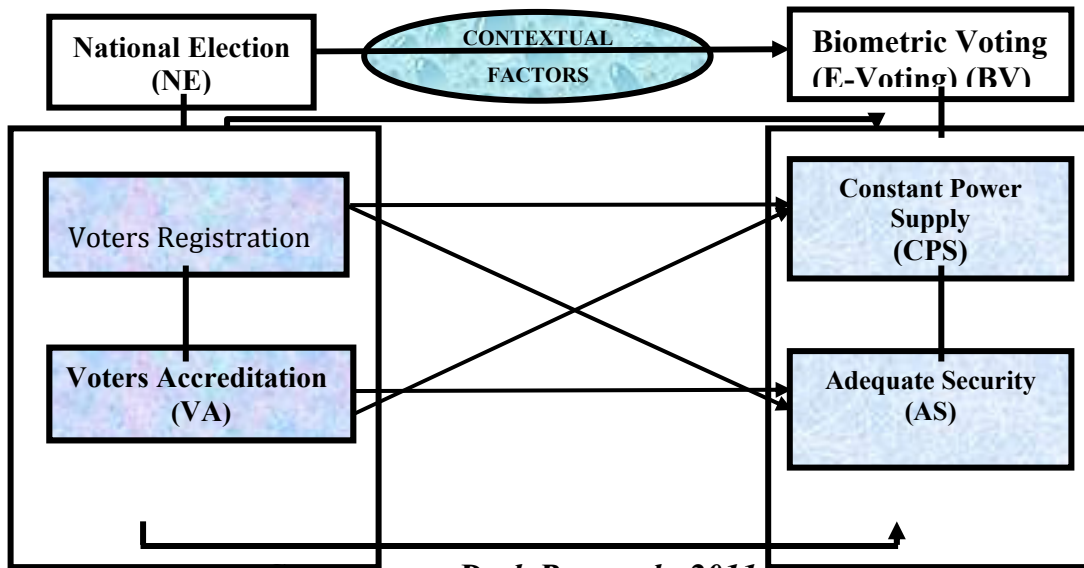
Based on the foregoing, we propose a conceptual framework of the relationship between National election and Biometric voting (E-voting).

Our proposal presupposes that National election can be measured through voters registration and voters accreditation. Also, Biometric voting can be measured through constant power supply and adequate security.

**FIGURE 1: CONCEPTUAL FRAMEWORK**



*Source: Desk Research, 2011*  
**FIGURE II: OPERATIONAL FRAMEWORK**



*Source: Desk Research, 2011*

## Conclusion, Recommendations and Implications

The 2011 general election was credible, reliable and transparent. The European Union Chief election observer, Mr. Aloiza Petel commended the release of election result credibility and reliability of the election and calls this success a bulky agenda for 2015. The election observer from the civil society also described the election as a great improvement compared to other Nigerian elections. Further, the international community highly commended the credibility of the election. For instance David Macrey for the International Community highly commended the efforts of Nigerians (Moji, 2011).

The implementation of the automated electoral system using biometric data would enable the hosting of free and fair election in Nigeria. This system will help to eliminate election irregularities, the stoppage of thugs' activities at the polling boots and stealing of ballot papers and boxes. This will also make credible to elections in Nigeria.

The paper recommends that the government provide regular power supply to effectively allow for the use of the biometric system

- that adequate security be maintained 24 hours
- that the leaders have fear of God in them and ensure that their obligations are fulfilled
- that voters list updating be established as opposed to a wholesome list compilation
- provide biometric data base of all Nigerians

The implications will be that the citizen can be sure that they alone can choose their leaders, thus exercising their rights in the democratic process. Also to further empirically investigate the relationship between National elections and electronic voting.

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## Consumer behaviour and online shopping adoption in Nigeria

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*This paper empirically examines consumer behaviour and online shopping adoption and their relationships in Nigeria. The purpose of this paper is to empirically determine the effects of Consumer Behaviour on the Adoption of Online Shopping in Nigeria. Due to consumer's general attitude towards cash purchases, there is strong positive linear relationship between the two variables. Thus, it is reasonable to infer that attitude of Nigerian consumers tend to influence Price, Trust and Convenience with regard to online shopping in Nigeria. The study used the questionnaire as the principal instrument. 360 copies of the questionnaire were distributed to respondents in each of the geo-political zones. After data cleaning 326 were used for our analysis. The paper finds that there is a strong positive linear relationship between Consumer Attitude and Price; There is also a strong positive linear relationship between Consumer Attitude and Trust. There is also a strong positive linear relationship between Consumer Attitude and convenience.*

*The paper recommends that:*

- *The Nigerian government should formulate a strategic plan in order to create daily National awareness to*
- *debunk cash purchases in order to use credit cards.*
- *The Government should also create educational awareness to the benefits associated with online shopping as*
- *compared to traditional shopping system.*
- *The Nigerian government should nationally implement a **cashless policy** with constant regular power supply.*
- *That Nigerian banks should also create awareness to both user and potential users of electronic services.*
- *The Nigerian government should enhance online shopping quality by increasing investment in Information*
- *Communications Technology (ICT) infrastructure.*
- *The campaign can be used mainly to educate more on price reduction, convenience and trust in using the system.*

### Introduction

*Online Shopping* is the process whereby consumers directly buy goods or services from a seller in real-time, without an intermediary service over the internet as in traditional retail system. If an intermediary service is present, the process is called electronic commerce. An online shop: e-shop, e-store, internet shop, webshop, webstore, online store, or virtual store evokes the physical analogy of buying products or services at a bricks-and-mortar retailer or in a shopping mall. The process is called Business-to-Consumer (B2C) online shopping. When a business buys from another business, it is called Business-to-Business (B2B) online shopping. B2C and B2B online shopping are forms of e-commerce.

As the internet has developed into a new distribution channel, online transactions in Nigeria are rapidly increasing. This has created the need to understand how consumers perceive online

purchases. The development or invention of the internet has created a paradigm shift of the traditional way people shop in Nigeria. Consumers are no longer bound to hours of operation (opening time or specific locations), the consumer can become active at virtually any time and place, and purchase products or services. The Internet is a relatively new medium for communication and information exchange that has become present in the daily lives of Nigerian consumers. The number of internet users is constantly increasing which also signifies that online purchasing is increasing. The rapid increase is explained by the growth in the use of broadband technology combined with a change in consumer behavior (Oppenheim and Ward, 2006). The Internet is considered a mass media that provide the consumer with purchase characteristics as no other medium. Certain characteristics are making it more convenient for the consumer, compared with traditional way of shopping, such as the ability to at any time view and purchase products, visualize their needs with products, and discuss products with other consumers. Oppenheim and Ward (2006), explained that the current primary reason people shop over the internet is the *convenience* as relatedly investigated in the present study. They also recognize that the previous primary reason for shopping online was *price*, which has now changed to convenience. In this respect, it is vital to know what online shopping is. *Online shopping is the process through which consumers go when they decide to shop or buy products on the internet.* Using the Internet to shop online has become one of the primary reasons to use the Internet, combined with searching for products and final information about them. Nigeria is the most populous nation in Africa, and the large land area is increasing, making it vital for online business to have a seat in the economy. In the old economy, it is cumbersome to transport goods from the west coast to the East coast, and from North to South. The rail system has decayed and poor, the air transportation is not efficiently developed to transport goods and the road transportation does not provide the facility to efficiently have effective movement of humans and materials, resources.

### **Theoretical Foundation**

Davis (1989), developed the Technology Acceptance Model (TAM) that explained what makes an individual adopt different technologies. This model was developed to improve the understanding of users acceptance processes, thereby providing new theoretical insights into successful design and implementation of information system. Technology Acceptance Model (TAM) according to Davis (1989) posits that two particular beliefs – perceived-usefulness and Perceived-ease-of-use are of primary relevance for computer acceptance behaviours (Davis et al 1989). Davis found that perceived usefulness is a primary determinant of people's intentions to use computers. In TAM, user-friendliness is treated primarily as an antecedent of perceived-usefulness and attitude toward use, where usefulness is postulated to have direct effect on intentions to use as well as on attitude toward use. In accordance with TAM, it is obvious that attitude influences behavioural intentions and that behavioural intentions influences actual behaviours. This model proposes two basic beliefs as noted above that influence a person's attitude towards a technology: (1) Perceived-usefulness (PU), which is the individuals perceived benefits that could come from adopting and using the technology and, (2) Perceived-Ease-of-Use (PE) which is based on the individuals perceptions of how difficult it will be to learn how to use the new technology (Davis, Bagozzi and Warsaw, 1989).

Further, in explaining behavioural intentions, the Theory of Reasoned Action (TRA) is used (Fishbein and Ajzen (1975). The Theory of Reasoned Actions model includes four general concepts: behavioural attitudes, normative pressure (subjective norms), usage, intention and actual use (Fishbein and Ajzen 1975; Hung et al 2003; Teo and P.K 2003). Crespo and Rochiguez (2007), further proposed a model in which they examined several other variables that directly influence purchase decision- attitude, perceived risk and subjective norm.



The online shopping that we use today is credited to Tim Berners-Lee. In 1990, Tim Berners-Lee created the first World Wide Web (WWW) server and browser (Palmer, 2007). In 1991, it opened for commercial use. In 1994, other advances such as online banking and the opening of an online Pizza shop by Pizza Hut (an Italian owned shop) took place. During that same year, Netscape introduced Secure Socket Layer (SSL) encryption of data transferred online, which has become essential for secure online shopping. Also, in 1994, the German company “*Intershop*” introduced its first online shopping system. In 1995, Amazon launched its online shopping site; and in 1996, eBay- a retail organization appeared (Palmer 2007). Finally in Nigeria, the first online bookstore Debonair publishing limited, is the host of the “*first online Bookstore*” in Nigeria. The entrepreneur’s aim is to tackle the three challenges affecting the reading culture in Nigeria. First is price, as the major distributor of the publishers of the world, Debonair publishing offer books at greatly discounted and affordable prices. Debonair can get books at a discount of the recommended retail price even in the United States of America (USA), and pass across that discount to their customers.

Another challenge is to provide original books, and Debonair is committed to providing original books. The third challenge is that they trying to overcome accessibility and convenience of shopping. This is the online platform where one can be at work, at home or be awake at 1.00am and actually buy the books and of course, with options and varieties. Debonair have access to about four (4) million book titles compared to the largest physical book store that will probably give one about 3,000 book titles, but currently on the website, over a thousand titles and the like. On browsing, the online shopper will see the full picture of the book, its short profile, cost and other relevant information about the books; and if the customer desires the book, he or she adds it to ones card checkout and shop online. Debonair publishing limited can be accessed through their website at ([www.bookng.com](http://www.bookng.com)). Payments are made with Nigeria debit cards.

### **Research Hypotheses**

Consumer Attitude toward behaviour is the degree to which a person has a favourable or unfavourable evaluation or appraisal of the behaviour in question. According to Allport (1935), an attitude is a “mental and neutral state of readiness, organized through experience, exerting a directive or dynamic influence upon individual’s response to all objects and situations with which it is related. Changing attitudes is generally very difficult, particularly when consumers suspect that the marketers have a self-serving agenda in bringing about this change.

Attitude according to Allport (1935) seem to matter more than anything else in determining whether or not consumers will use the services available to them. In the same vein, convenience refers to the time being saved in purchasing a product or service. Online shopping as a new medium for retailing creates more convenience shopping online compared to the traditional shopping system. The convenience it provides include less effort, from the convenience of one’s home, time saving and being able to shop 24/7.

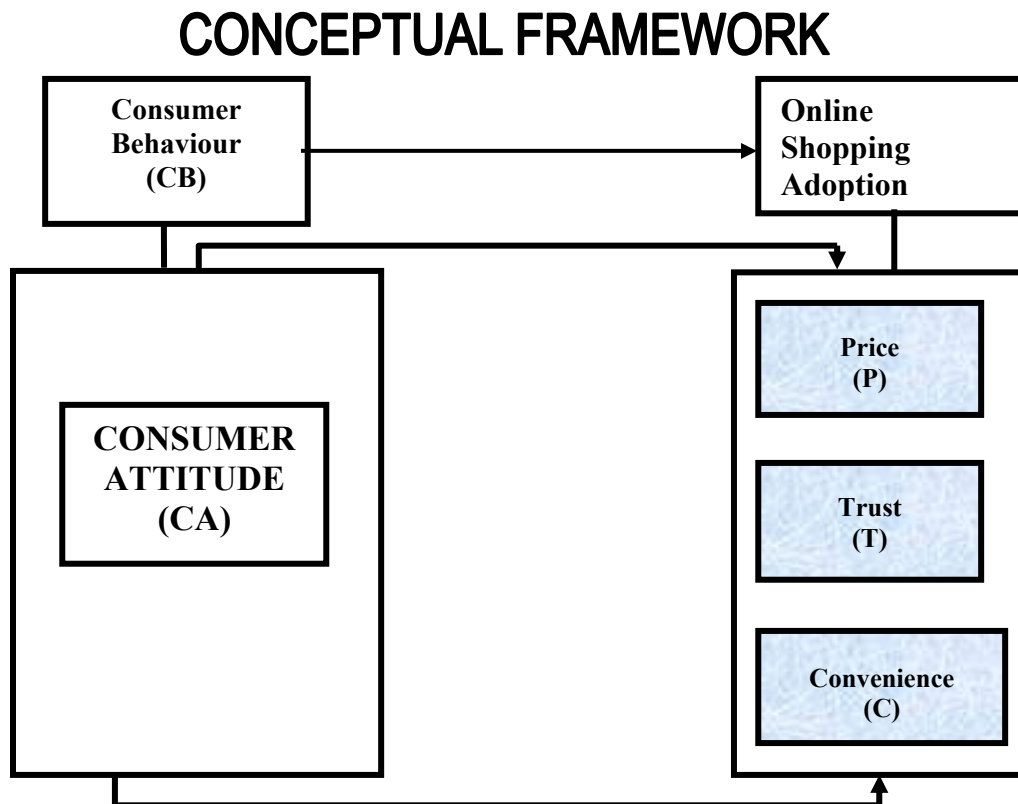
The internet has become a global market place where consumers can compare product information and prices. The internet facilitates the scenario that comparisons can be achieved with ease (Kotler and Keller, 2006). Monsuwe et al (2004), posits that the internet is a relatively new way of shopping, and therefore challenging to the consumers and perceived by the consumers as risky and not trusted. Thus, the following hypotheses were derived:

H0<sub>1</sub>: There is no significant relationship between Consumer Attitude and Online shopping Adoption Price in Nigeria.

- H<sub>02</sub>: There is no significant relationship between Consumer Attitude and Online shopping Adoption Trust in Nigeria.
- H<sub>03</sub>: There is no significant relationship between Consumer Attitude and Online shopping Adoption Convenience in Nigeria.

### Study Variables

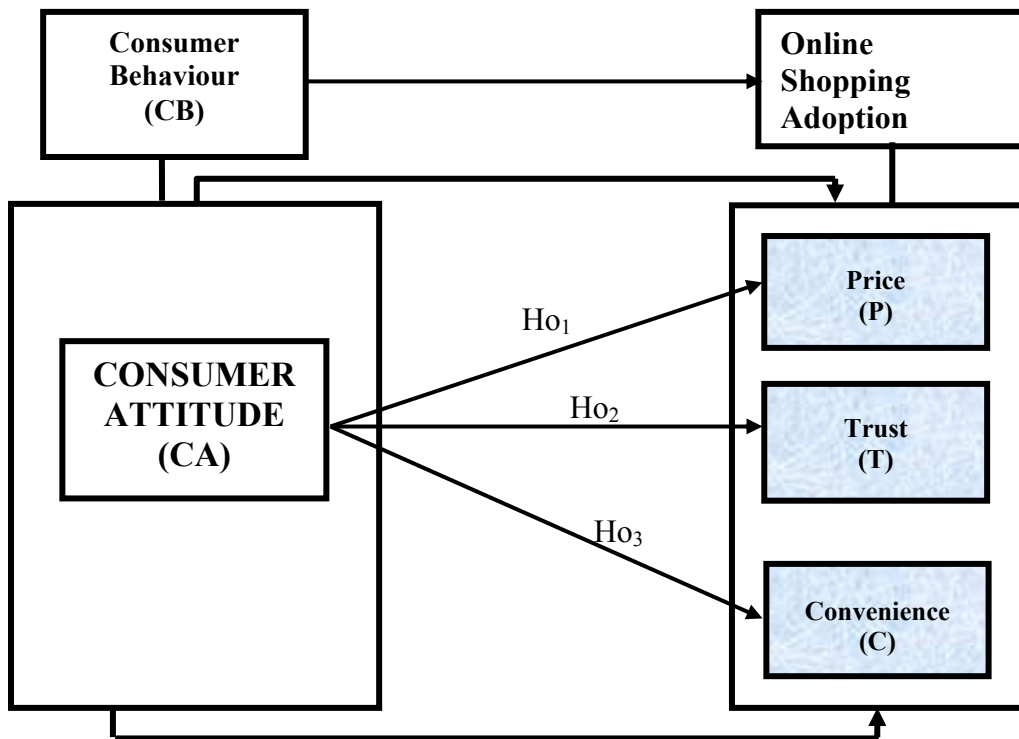
According to Tull and Hawkins (1993), attitude scales are carefully constructed sets of rating scales designed to measure one or more aspects of individual's attitude toward some object. Tull further posits that the individual's responses to various scales may be summed to provide a single attitude score for the individual, or more commonly, the responses to each scale item or sub group of scale items may be examined independently of other scale items. Tull further contend that three unique forms of itemized rating scales are commonly used to construct attitude scales. These scales are known as Likert scales, semantic differential scales, and staple scales. As our conceptual frame work depicts, consumer behaviour is our predictor variable with its measures as Attitude while online shopping adoption is our criterion variable with its measure as Price, Trust and Convenience. Data on the dimensions of the predictor and criterion variable was measured using the 5-point Likert scale. The scale range was from 1-5 with 1 strongly agree to 5 strongly disagree. Respondents were required to indicate with the scale the extent to which consumer behaviour affects online shopping adoption in Nigeria. In our paper consumer behaviour is our predictor variable with its measure as Attitude while online shopping is our criterion variable with its measure as Price, Trust, and Convenience.



Source: Desk Research, 2011

**Figure 1: Conceptual Framework on Consumer Behaviour And Online Shopping Adoption in Nigeria**

## OPERATIONAL FRAMEWORK



*Source: Desk Research, 2011*

**Figure 2: Operational Framework on Consumer Behaviour And Online Shopping Adoption in Nigeria**

### Review of Relevant Literature

#### Online Shopping Establishment in Nigeria

To successfully achieve running online shop in Nigeria, the owner must have an in-depth knowledge concerning the market as well as it's consumers. This is due to the fact that the Nigerian consumer behaviour and the dynamics of the market is very different from that obtainable from the United States, United kingdom and the European Union. The question is whether Nigerians are ready to shop online? The answer in our opinion is "yes." Nigerians in this regard would prefer buying from a local shop and have a personalized approach to selling the items to them in spite of their **traditional cash based** purchase attitude. In order to develop a successful online local shop in Nigeria for Nigerian consumers, the marketer must establish the following:

- a. **Product:** The intended product for sell must be at the right price, available, cheap in comparison to local shops and possess good quality. In times of choosing a product to list online, it is important to note that the Product Cost Price (PCP) including the Logistic Cost Price (LCP) should be less than or equal the cost of the product in the shop

$$PCP + LCP = \leq LSP, \text{ where}$$

PCP = Product Cost Price

LCP = Logistics Cost Price

LSP = Local Shop Price

Here, the marketer must ensure that the supplier can deliver the marketer's listed inventory at the right place regularly. This concerns the *Product inventory*. With product descriptions, the marketer must ensure that product description is thorough, and not to spend time answering questions concerning the listed products rather than just selling and providing after sales support. In essence, the marketer must always endeavour to have weekly promotions even if it means selling at cost price, which will allow the marker lock in customer loyalty over a long period of time.

Also, the marketer should not *lose focus* of his/her product. For example, if you want to sell automobiles, you don't start listing electronics and prepaid cards. All that needs to be done is to stick to your market niche and create another platform for other products, as *product listing overload* is not meant for the Nigerian consumer who at the present time is learning shopping online. Overload of product listing may get them easily confused.

Further, the products should not be *overpriced*, more than the selling price listed at the local shops. Finally, the marketer should never select a product that will not break-even.

- b. Payments:** Payment methods in Nigeria has not been well interconnected. This has been a little problem in the past and Nigerian consumers slow adoption of online shopping is rapidly changing for better. Awareness of electronic payments in Nigeria is increasing and it accounted for 360 billion naira worth of transactions (Adeyemi, 2008). However, internet banking, bank deposits still worth fine along with debit and credit cards. These forms of payments have facilitated online payment.
- c. Logistics:** Shipping customers items within Nigeria is quite cheap. The best approach is to have special arrangements or contracts with the logistics companies in order to lock in the cost of shipment with the shipping company.
- d. The Identity:** The identity of the marketer's online shop plays significant role in getting customers to patronize the shop. It is common that no Nigerian as in the western countries would patronize a shop that has no identity. This could be done through personal or corporate approach. The personal approach entails writing a detailed page about yourself (the company) and detailing all required contacts. This form of identity builds trust. The corporate approach entails introducing your company with all necessary details regarding the company.
- e. Sales Platform:** The sales platform is where marketers sell their products in their inventory. A domain name is necessary to get for the shop as well as a hosting account to host the domain name. Companies like *Nairahost* [www.registeran.com.ng](http://www.registeran.com.ng), a leading provider of web hosting and domain registration in Nigeria can help in setting up a shop for as little as N6,000.00 a year.
- f. Security:** Security is a very important and crucial component of ensuring the success of online shop in Nigeria. In this regard, it is vital to purchase a Secure Socket Layer (SSL) Certificate in order to secure the transaction process. Consumers feel more secure and comfortable shopping in a shop that has an SSL Certificate, rather than otherwise.
- g. Shipping and Policy for Returns:** This section of the website affords the marketer the opportunity to explain the policies regarding the shipment of purchased products and the kinds of warranties that the products have. This further creates great confidence in the listed products.
- h. Marketing:** In this respect, advertising in Google or Yahoo or even any advertisement network may not be able to deliver product advertisement to Nigerians. Moreso, this will

be too costly to convert enough sales to cover the cost of customer acquisition through these channels. Rather than using the above mentioned network, an alternative means of advertising your product could be through *Search Engine Optimization* (SEO) which will ensure that the marketers shop is searchable in major search engines. There are a few search Engine Optimizations (SEOs) experts in Nigeria that charge reasonable fees in ensuring that a marketer's shop is search engine friendly with contents properly indexed in the search engines. Also, there are several Nigerian blogs (Paid Review Blogs) that would make a coverage or the marketers blog for free, while others would do a thorough coverage for a fee. In addition, some popular Nigerian blog such as *specific Blog ads slots*, that have spaces for advertisement.

Finally, providing regular newsletters to existing customers concerning the products, consistency, weekly promotions and renewing the domain on yearly basis would ensure that the marketer not only become successful in running an online shop in Nigeria, but will achieve high profit (Muyibi, 2009).

### **Who are the Online Customers in Nigeria?**

In recent years, online shopping has become popular as opposed in the past; however, it still caters to the *middle and upper class* of the society. In order to shop online, one must be able to have access to a computer, a bank account and a debit card. Shopping has evolved with the growth of technology. The advent of internet, electronic commerce, and communication technology significantly opened opportunity for middle and upper class Nigerian consumers to start using online shopping. These groups of Nigerian Consumers, who use this technology, do so because it is convenient and easy to use, time saving and appropriate for their transaction needs. Looking at the characteristics of the in-home shopper in general, it is observed that the higher the level of education, income and occupation of the head of the household, the more favourable the perception of non-store shopping. Also it is found that increased exposure to technology as demonstrated by Enrique (2005), increases the probability of developing favourable attitudes on shopping channels. Online shopping no doubt widened the target audience to men and women of the middle class. At first, the main users of online shopping were young men with a high level of income and a university education. This profile is changing. For example, in Nigeria today in the early years of internet, there were very few women users, but by 2009, women population of the online shopping increased (Muyibi, 2009).

### **Online Consumer Characteristics in Nigeria**

Specific online consumer characteristics need to be made in order to understand the online purchase behavior. The identified characteristics are some key characteristics in regard to the online consumer. These key characteristics are made in order to identify online consumers. The online consumer characteristics include: cultural online characteristics, social online characteristics, personal online characteristics, and psychological online characteristics.

**Cultural online characteristics:** The Nigerian culture of **cash based** purchasing system has tremendous effect in Online shopping adoption in Nigeria and supposed to advanced countries that have been used to making purchases online with credit cards. Differences in social class create a difference in online purchasing behaviour (Smith and Rupp, 2003). Consumers from a higher social class, generally purchase more and have a higher intention to purchase online because, there is a high probability that they possess a computer and also have greater access to the Internet. Consumers from lower Social Class would not have properties as those of higher classes. It is obvious that consumers with lower social class would not have the needed computer literacy to be able to leverage a computer let alone shop online.

**Social online characteristics-** The social influence on the online consumer comes from new *reference group* compared to the traditional form. For the online consumer, new *reference groups* have been identified as *virtual* communities consisting of discussion groups on the websites. The consumer can read about other people's experiences and opinions which have shown to have the effect of reference groups (Christopher and Huarny, 2003). Other Reference Groups, which are made by Christopher and Huarny (2003), are links to products related to website, which encourages product selection and contact information.

**Personal online characteristics-** Monsuwe et al (2004), explored the personal online characteristics and concluded that *income* has a very significant role for online purchasing behaviour. Consumers with higher household income would have a more positive attitude towards online shopping. This is so because households with higher income would have positive mind with the possession of a computer, internet access, and high education.

The age factor is also a determinant factor for online purchase intentions. For instance, older people who have no frequent interactions with the Internet and the computer would not use the internet as a medium for purchases, while young adults effectively would. This translates that young adults use Internet and computers more frequently, younger people have also been identified to have more technical knowledge. Also, younger adults usually have greater interest in using new technologies to browse for information and evaluate alternatives (Monsuwe, 2004).

**Psychological online characteristics:** These are questions the online consumer would ask himself /herself before making a purchase online. These questions would arise from the following psychological issues – Motivation, Perception, Personality, Attitude and Emotions.

- (i) **Motivation:** The consumer is reasoning for incentives to engage in a particular behaviour. The consumer may ask himself or herself questions like: should I work around for a better price? If online shopping saves the consumer's time, should the consumer shop online? How much do I really need this product?
- (ii) **Perception:** The consumer is interpreting the acquired information by classing it. Questions such as the following may come out: I feel that this site seems pretty secure. It seems that this site has good product, but how can I be sure.
- (iii) **Personality:** The consumer is adapting to influences of his cognitions. He or she may ask what type of web sites is best suited for his /her personal buying preferences.
- (iv) **Attitude:** The consumer is working out what his likes and dislikes are in respect to a particular situation. He or she may ask: I am pretty unsure about extra cost, should he or she really be buying items from the internet? If he or she does not buy the item online, how else can he/ she get it?
- (v) **Emotions:** Here, the consumer is without conscious effort detecting how he/ she is being affected by his cognitive choice. He or she may ask: the last time I ordered from the internet, I had a really bad experience. Should I try buying online again? What is the future of buying online? If web site get better, should I invest more time in buying online?

### **Factors Affecting Online Consumer Behaviour**

In general, the factors that affect online consumer behaviour are enumerated below based on our research hypotheses.

**The factors:** *Price, convenience and trust* are highly relevant influencer in the online consumer shopping behaviour. (Bregman et al, 2005).

- \* **Price:** Price, as a part of the marketing mix, is a relevant factor used in order to stimulate the consumer and is also a communicator, bargain tool, and a competitive weapon. The consumer can use price as a means of comparing product, judge relative value for money, and judge product quality. Generally, the ability to conduct price comparison has been given as a major reason that compels consumers to use the Internet. Price sensitive shoppers are essentially concerned, with buying products at the lowest possible price or getting the best value for the money spent. The price factor has two attributes.

**Table 1: The Price Factor and its Attributes**

Factor	Attributes
Price	Monthly savings
	Price comparisons

Source: Author’s observation, 2011

**Trust** is considered to be an important factor in shopping online. Nigerian consumers have limited trust on systems reliability in terms of operational efficiency. Also constant power failure hinders consumers from trusting the use of online shopping adoption. Consumer’s privacy is not always trusted in the hands of operators. Privacy invasion is probably the toughest public policy issue that confronts direct marketing industry today. Consumers often benefit from *database marketing*-they receive more offers that are closely matched to their interests. Today, many critics worry those marketers may know too much about customer’s lives and that they may use the knowledge to take unfair, advantage of customers. At some point, they claim, the extensive use of *databases* intrudes on consumer privacy. These days, it seems that almost every time a consumer apply for a credit card, visit a web site, order products by mail, telephone, or the Internet, their names enter some company’s already bulky database

**Table 2: The trust factor and its Attributes**

Factor	Attributes
Trust	Safety perception
	Trust in the international retailer
	Trust in the internet as a retail shopping

Source: Author’s Observation, 2011

**Convenience:** Convenience is considered to be a benefit in the eyes of the consumer and a quality derived from purchasing over the Internet. It is considered significant to be a motivator as well as a benefit to consumers (Coustantinides, 2004). **Convenience** is anything that is intended to save time and frustrations. It is obvious that most Nigerians are becoming impatient to a long queue at the point where sale terminates. Nigerian consumers are developing **on-the-go-attitude** and such want quick service to get back on their daily activities.

**Table 3: The Convenience Factor and its Attributes.**

Factor	Attributes
Convenience	Time saving

	Less effort
	Shopping at any time
	Shopping from their homes

Source: Author's observation, 2011

### **Consumer and Online Shopping at KIA Motors**

Dana Motors, Nigeria Limited, an authorized distributor of several ranges of KIA cars has recently upgraded its marketing activities with the launch of its official "E-newsletter KIA HIGHWAY" to allow its customers received online information regarding their cars.

The *Kia Highway E-news Letter* (electronic newsletter) is available online to Kia's customers as well as stakeholders through e-mail. This E-newsletter serves as an additional means of informing and educating them of *Kia's* corporate activities both in Nigeria and global market.

The essence of Kia Highway E-news letter according to the company's General Manager, Mr. Mohan Sethi is the company's belief in *First rate* consumer service which is why they are always opening new channels of communication with their customers. This new periodic newsletter contains news, special offers, discounts and information to assist Kia owners get the best from their vehicles.

The Kia Highway E-newsletter serves as a platform for the company to interact and share the brand experience with their customers as they continue to offer them competitive products and services since the customer remains the reason for the brand. The E-newsletter aims at complementing Kia's other means of communicate with their stakeholders making them understand the company better. This means continues to strengthen the relationship between the company and its customers. The E-newsletter attempts to reach over 100,000 people periodically since it is very informative and educative. The company's objectives is to continue putting world class structures in place to ensure that their customers constantly get the best level of services available.

In spite of Kia motor effort to reach Nigerian consumers online, Nigerian attitude is still not positive because of its habit of cash purchases. Most Nigerian's would prefer to make cash payments on a purchased car rather than using credit cards; visa, mastercard, American express, Dinners club, and Nigerian naira debit cards.

### **Advantages and Disadvantages of Online Shopping**

The *advantages* of online shopping include the following:

**a. Convenience:** Online stores are usually open 24 hours a day, and many consumer have internet access both at home and at work. Other establishments such as internet cafes and schools provide access as well. On the other hand, a visit to a conventional retail store requires travel and must take place during business hours. In the event of a problem with an item- if it is not what the consumer ordered, or it is not what they expected – consumer are concerned with the ease with which they can return an item for the correct one or for a refund. In this instance, the consumer may need to contact the retailer, visit the post office and pay return shipping, and then wait for a replacement or refund. Generally, some online companies have more generous return policies to compensate for the traditional advantage of physical stores (Brick-and-Mortar Stores). For example, the online shoe retailer zappos.com includes labels for free return shipping, and does



not charge a restocking fee, even for returns which are not the result of a merchant error. For example, in countries like United Kingdom, online shops are prohibited from charging a restocking fee if the consumer cancels their order in accordance with the consumer protection (Distance selling) Act 2000 (<http://www.offt.gov.uk/shared-offt-business-leaflet/general/offt698>).

**b. Information and Reviews:** Online stores describe products for sale with text, photos and multimedia files, whereas in a physical retail store (traditional) the actual product and the manufacturers packaging are available for direct inspection (which might involve a test drive, fitting in other experimentation).

Online shops also provide or link to supplemental product information such as instructions, safety procedures, demonstrations, or manufacturer's specifications. Some provide background information, advice, or how-to guide designed to help consumers decide which product to buy. Also, some stores allow customers to comment or rate their items.

There are also dedicated review sites that host users can review for different products. Some online stores have real-time chat features, but mostly rely on e-mail or phone calls to handle customer questions. In a conventional retail organization, clerks are generally available to answer questions that may arise.

**c. Price and Selection:** One advantage here of online shopping is the ability to quickly seek out deals for items or services with many different vendors. *Search engines, online price comparison services* and *discovery shopping engines* can be used to look up sellers of a particular product or service.

Finally, another major advantage is that retailers have the ability to rapidly switch suppliers and vendors without disrupting user's shopping experience.

### **Disadvantages of Online Shopping**

**a. Fraud and Security Concerns:** Given the lack of ability to inspect merchandise before purchase, consumers are at high risk to fraud from the merchants than in physical store. Also, merchants risk fraudulent purchase using stolen credit cards or fraudulent purchases online. For example 419ers in Nigeria take advantage of the lack of sophisticated infrastructure to defraud customers billions of naira.

**b. Lack of Full Cost Disclosure:** The lack of full disclosure with regards to the total cost of purchase is one of the concerns of online shopping. While it may be easy to compare the base price of an item online, it may not be easy to see the total cost immediately as additional fees such as shipping are often not visible until the final step in the checkout process. For example, with cross-border purchases made in the UK to Nigeria where the cost indicated at the final checkout screen may not include additional fees that must be paid upon delivery such as duties and brokerage.

**c. Privacy:** Privacy of personal information is a significant issue for some consumers. Different legal jurisdictions have different laws concerning consumer privacy with different levels of enforcement. Merchants are advised according to the law to protect information provided to them by consumers. The Nigerian Communication Commission (NCC) have established laws protecting consumers online. For instance, the commission established the Consumer Protection Council (CPC) to hear complaints from consumer and punish merchants who violate the law.

### **Methodology**

The methods of study adopted for this research emphasis library research and field work survey. The library research is undertaken for the purpose of taking a survey on theoretical and empirical

evidence of works that have been done in the related chosen field of study. This involves research of published works such as books, journals, and annual reports. The field work involved distributing questionnaire to statistically selected Nigerian consumers in the Universities, banks and government agencies in four geo-political zones viz: south-south, south-west; Northern and South-east regions of Nigeria. This was done for the purpose of appropriate data collection. The sample size of the respondents were 360. On the whole, only 326 copies of the research questionnaire representing 92% were used after data cleaning for analysis. In the course of the field work both secondary and primary data were collected in the area of consumers and online shopping. Pearson Product Moment Correlation was adopted for the data analysis, with the aid of statistical package for social sciences (SPSS).

## RESULTS AND DISCUSSIONS

**Table 4: Results of Pearson Product Moment Correlation Coefficient on Consumer Attitude, Price, Trust and Convenience**

	Consumers Attitude (CA)	Price (P)	Trust (T)	Convenience (C)
Consumers Pearson Attitude Correlation (CA) Sig. (2 tailed)	1	.640*	.820*	.780*
N	326	326	326	326

Source: Research Data, 2011 and SPSS ver. 15 output window

\*\* = Correlation is significant at 0.01 level (2-tailed)

\* = Correlation is significant at 0.05 level (2-tailed)

On the set of hypotheses tested on Consumer Attitude and measures of online shopping adoption in Nigeria, consumer attitude is correlated with price factor with a coefficient value of 0.640, and a P-value of 0.045. This shows that there is a strong positive linear relationship between the two variables, and since the P-value (0.045) is less than the level of significance ( $\alpha = 0.05$ ), we therefore reject the null hypothesis and conclude that, there is significant correlation between consumers attitude and online shopping adoption Price factor in Nigeria.

Relatedly, Consumer Attitude is correlated with Trust factor with a coefficient of 0.820, and a P-value of 0.011, this also shows that, there is a strong positive linear relationship between the two variables, and since the P-value (0.011) is less than the level of significance ( $\alpha = 0.05$ ), we therefore reject the null hypothesis and conclude that, there is significant correlation between the two variables Consumer Attitude and Trust in Online shopping usage in Nigeria.

In the same vein, Consumer Attitude is found to be correlated with convenience experienced in the usage of online shopping in Nigeria, with a coefficient of 0.780, and a P-value of 0.003. This result shows that, there is a strong positive linear relationship between the two variables. Statistically, since the P-value (0.01) is less than the level of significance ( $\alpha = 0.05$ ), we therefore reject the null hypothesis and conclude that there is significant correlation between consumer Attitude and Convenience experienced in usage of online shopping in Nigeria.

On the whole, the above three hypotheses were tested on this correlational relationship category, using the SPSS, and involving the influence of Consumer Attitude towards the usage of online shopping in Nigeria on one hand, dimensions of predictor (consumer Behaviour), and Price factor, Trust on the usage and convenience associated with the usage, on the other as measures of criterion variable (online shopping adoption). The dominant trend of the test results shows that consumers Attitude tend positively and strongly influence the consumers adoption on online

shopping in terms of price as a relevant factor and means of comparison and relative value of money in the usage of internet. Trust and Convenience are also considered to be of immense benefit in the eyes of consumers as a result of the quality services derivable from purchasing over the internet, in terms of time saving and frustration avoidance.

### **Conclusions and Recommendations**

Online shopping is increasing in Nigeria as opposed to the traditional buying system. More consumers own computers at their homes and offices. Convenience, Trust, Price are main reasons consumers shop online. Software support for online services include S-HTTP, SSL and SSS. Facilities that make shopping online feasible include the application of software, hardware and services. Online consumer characteristics include cultural online characteristics, social online characteristics, personal online characteristics and psychological online characteristics. Privacy is also of importance in shopping online. The paper finds that there is strong linear positive relationship between consumer attitude and price, trust and convenience.

The study recommends that:

1. The Nigerian government should formulate a strategic plan in order to create daily National awareness to debunk cash purchases and use credit cards.
2. The Government should also create educational awareness to the benefits associated with online shopping as compared to traditional shopping system.
3. The Nigerian government should nationally implement a **cashless** policy with constant regular power supply.
4. That Nigerian banks should also create awareness to both user and potential users of electronic services.
5. The Nigerian government should enhance online shopping quality by increasing investment in Information Communication Technology (ICT) infrastructure.
6. The campaign can be used mainly to educate more on price, convenience and trust using the system.

### **Suggestions for Further Studies**

Further research should test the effects of other external factors such as service quality, speed, motivation, personality, self-efficacy and others.

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## **Enhancing Learning Quality for Higher Educational Institutions in Sub-Sahara Africa through ICT, e-Learning and Virtual/Digital Libraries: Strategies and Experiences**

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*The contemporary society can be aptly described as a knowledge society in which high premium is placed on ideas and information; and where knowledge strongly influences the development process. Higher Educational Institutions (HEIs) especially Universities are to generate new knowledge from all sectors of the society, to support economic growth and competitiveness as well as address the development challenges facing societies. Information Communication Technology (ICT) is a leveraging tool and some of the products that make direct impact on HEIs including e-Learning and Virtual/Digital Libraries. The paper will discuss the current status of Learning Management System (LMS) and the matters connected with course content preparation and adaptation at one of the prominent universities in Africa (University of Lagos). The challenges in introducing the LMS mode include content preparation and the setting up of Quality Assurance (QA) mechanism to ensure conformance to standards and avoidance of plagiarism. The paper also discusses efforts at the establishment of virtual/digital libraries both by the National University Commission in Nigeria and the contribution of the private sector to these efforts. The paper provides a 'road-map' for early achievement of providing world-class higher education institutions through ICT in sub-Sahara Africa.*

### **INTRODUCTION AND THE PROBLEM STATEMENT**

The Turkish Ambassador to Nigeria, Mr Ali Rafat Koksall, called on the Federal Government to focus on human capital development towards the realization of Vision 20: 2020 for Nigeria to become one of the top twenty economies in the world. In the exact words of Mr. Ali Rafat Koksall, "We had similar problems Nigeria is facing but now Turkey is the 16th economy of the world. From my observation as a foreigner in Nigeria, I believe Nigeria has the potential to realize the Vision 20: 2020. Your future is so bright". According to him, the greatest asset of Nigeria was the people and not oil, saying this factor made it imperative for the government to increase investment in human capital development, which was critical to development of any nation. To this end, the Turkish government promised investment in education in Nigeria to boost the nation's human development index, Idoko (2011).

Most countries are seeking to improve the quality of their higher education institutions to ensure that they are competitive in a globalised world. This paper focuses on the experiences and strategies for enhancing Quality of Learning in Higher Educational Institutions in Sub-Sahara Africa through ICT, e-Learning and Virtual/Digital Libraries with the aim of evolving excellent management practices institution-wide and at all levels which are concerned with policies and processes related to teaching, learning and assessment in different national contexts. The paper considers key management issues including acting on student feedback, engaging e-learning initiatives, linking research and teaching effectively, leading learning organizations, implementing innovations in education, developing outcomes based courses and applying peer review principles to teaching.

The need to expand access to higher education in Sub-Sahara Africa (SSA) within the pervading constraint of paucity of funds and the generic inadequate quantity and quality of academic personnel (teachers) coupled with the problem of poor infrastructure that inhibits quality learning has brought to the fore the role that ICT must play to leverage, especially the inadequacy of quality teachers in the higher education sector in Africa. In effect; it is desirable to benchmark our academic programmes in SSA with those of developed countries in such a way that SSA HEIs can also be ranked amongst the best HEIs of the world,

It is further reasoned that this can be achieved if course content(s) (at least) and better still the entire pedagogy including the still videos of delivery methods in developed countries can be made available to students in SSA in real time. It is noted that the focus of educational technology has shifted from improving the efficiency of administration to inspiring teaching innovation and improving the learning experience. As the daily lives of students, teachers and staff become more web-centric, forward-thinking administrators are applying the lessons learned from administrative computing to enhance the delivery of education today and well into the future.

## **LITERATURE REVIEW**

### **The e-Learning and HEIs in Sub-Saharan Africa Setting**

In Nigeria, and in most African countries; paucity of funds constitutes a major obstacle to the wheel of progress in the drive to actualize Millennium Development Goals (MDGs). To this end, effective and efficient technique of optimized actualization of existing financial and human resources must be harmonized. This may be found in e-learning with establishment of viable virtual/digital libraries. Dhariwal did a comparative analysis of e-learning approach and the traditional method in respect of the teaching of mathematics and science subjects. He opined that e-learning allows for individualized learning thereby enabling learners to make progress in their quest for acquisition of knowledge at their own pace whereas such is not achievable in the traditional methods of teaching. The e-learning method personalizes the instruction, avail the gist and gem of various learning styles of each learner, boost the confidence level of learners, brings about constructive modification in the roles of teachers and learners as wells fosters desirable student-teacher relationship, Etukudo 2011).

Wikipedia(2010) defined e-learning as all forms of electronically supported learning and teaching using information and communication system which may or may not be networked, comprising of computer and network-enabled transfer of skills and knowledge, which may be web-based, computer-based, virtual classroom and digital collaboration, delivered through internet, intranet/extranet, audio or video tapes, satellite TV, and CD-ROM, which can be self-paced or teacher-led embedded with media text, images, animation, streaming video and audio and associated with acronym such as CBT(computer-based training), IBT(internet based training) and WBT (web-based training). The term e-Learning includes any form of Computer Aided Learning (CAL) and Computer Aided Instruction (CAI). E-learning simply refers to electronic learning. According to David Huffaker, the sure way to harness e-learning prowess is by training the trainers in order that the trainers may possess the necessary skills required for its successful implementation. The purpose of e-learning is to promote active learning, meta-cognition and transfer of learning based on methodology that emphasizes active engagement, social learning, continuous feedback and real world applications. Other issues which include standardization of content and application, software filters and surveillance, and conduct of students during examinations are central to successful implementation of e-learning.

### **Millennium Development Goals**

Development the world over is centered on improvement in quality of life as exemplified by the world leaders at the millennium summit held in New York in the year 2000. The aim of the

Millennium Summit was to set a concise and precise agenda with which every nation of the world irrespective of race would adopt for the betterment of her citizens. The set agenda fondly referred to as the Millennium Development Goals (MDGs) were predicated upon the following objectives that all nations of the world must strive to achieve between year 2015 and year 2020 the following goals, *Factsheet*, (2010):

- Eradicate extreme hunger and poverty;
- Achieve Universal Primary Education;
- Achieve gender equality and women empowerment;
- Reduce child mortality;
- Improve maternal health;
- Combat HIV/AIDS, malaria and tuberculosis;
- Ensure environmental sustainability; and
- Develop global partnership for development.

A close analysis of the eight objectives highlighted above reveals that the eighth depends on the first seven. However, sound education provides a strong pivot upon which the eighth objective rests, *Ejiogu, A.* (2008). And higher educational institutions (HEIs) provide the wheels upon which global partnership for development is based. To achieve the millennium development goals therefore we must seek to strengthen the educational institutions in sub-Sahara Africa. And to achieve this feat, we must improve the teaching standard using various methodologies both real and virtual through ICT, *Okojie, J.* (2008), *Anniebonam, M.C.* (2006).

It is however saddening to discover that the pace of execution of MDGs in Africa can at best be described as worryingly slow. It is therefore a surprise that Africa has not put in place any meaningful structure that would drive the wheels of MDGs successfully six years to year 2015 and it does not appear as if African leaders are anxious to achieve these goals. If Africa should proceed at the current rate, it is certain that actualization of MDGs in Africa would only result in dismal failure. The 2008 World Economic Forum in Davos, Switzerland called for urgent action at quickening the pace of progress of Africa in order that no region is left behind towards 2015. The Third International Conference on Quality Assurance in Higher Education in Africa bring to fore the place of education in MDGs.

We can also consider the MDGs in the context of President Yar'Adua's seven point agenda. The 7 point agenda of the current government may be summarized as follows:

1. Critical Infrastructure: The critical infrastructures which include power, transportation, national gas distribution and telecommunications; must be developed for the goal of being one of the twenty largest economies in the world to be achieved by year 2020
2. The Niger Delta: That apart from improving the quality of life of people in the Niger Delta area, the development of the area is crucial to national peace, security and the nations development
3. Food Security: That food security is the key to poverty reduction and the realization of one of the MDGs can be achieved through agricultural development of modern technology and research.
4. Human Capital Development: It has been noted that the wealth of a nation depends more on the human capital rather than physical/mineral resources. Human capital development is therefore crucial to national development. Mr. President's 7-point agenda notes that "Nigeria has a lower than average life expectancy, high maternal and child mortality, high preventable morbidity and mortality, and poor education output and learning

- outcomes”. Human capital development will enhance the achievement of sustainable national development.
5. Land Tenure Changes and Ownership: The Land Tenure Changes and Ownership scheme is aimed at optimizing Nigeria’s growth through the release of land for housing, commercialized farming and other large scale businesses by private sector.
  6. National Security and Intelligence: The 7-point agenda recognizes the importance of the country’s national security for national development, and
  7. Wealth Creation: Wealth creation is essential for poverty alleviation which is one of the cores of the MDGs. Creating an enabling environment for economic growth and to increase the personal incomes of individual citizens. The expected growth rate to achieve 20:2020 is 13%.

It is pertinent to state here that all the above stated 7 points and indeed the MDGs all rest on qualitative education.

### **MDGs Actualization Constraints**

In a bid to actualize the MDGs in Nigeria, the Federal Government launched a policy document known as NEEDS; an acronym for National Economic Empowerment and Development Strategies. NEEDS is a localization of MDGs which strategic themes include:

- Good governance
- Poverty alleviation and wealth creation
- Employment generation
- Value orientation, and
- Elimination of corruption.

These strategic themes are informed following realities on ground:

- Life expectancy is at a deplorable low of 54 years
- Infant mortality is tragically at 77 per 1,000.
- Maternal mortality is at 704 per 1,000,000 live births
- Physicians are available for about 1 for 3,300 persons
- Less than 40% of rural population has access to safe drinking water
- 90% of rural population depends on the forest for domestic energy
- About 30% of children below the age of 5 are classified as underweight.

We cannot but agree that NEEDS is a relevant document policy in Nigeria and therefore it is pertinent that the project NEEDS must be successfully implemented for Nigeria to bring the vision 20:2020 to reality. In order that Nigeria achieves this feat, the implementation of NEEDS must conform to the laid down procedure for project management techniques. And the key factors in project implementation techniques are:

- People
- Process, and
- Technology

To optimize the gains of NEEDS, it is necessary and sufficient to improve people by education, training and re-training, improve on process that govern the policy document of NEEDS and adequately employ the appropriate technology that will yield the required result(s) as itemized in the strategic themes of NEEDS.



## **BACKGROUND INFORMATION OF HEIs IN NIGERIA**

The quality of Higher institutions represent the yardstick for measuring development of a nation since development of any nation is a function of the quality of manpower the nation possesses to drive its economy. In Nigeria, attempt for the training of formidable manpower for future challenges of the country started with the establishment of Technical Colleges foremost amongst which is the Federal Technical College, Yaba. The real starting point of higher education began with Yaba the great. Established in 1948, Yaba College of Technology, Yaba, Lagos was primed as the first institution of higher learning in Nigeria. Beginning with the University of Ibadan, the first generation Universities were established between 1948 and 1965, following the recommendation of Ashby Commission set up by the British Colonial Government to study the needs for university education for Nigeria. These universities are fully funded by the Federal Government. They were established primarily to meet the manpower needs of Nigeria and set basic standards for university education in the country. These universities have continued to play their roles for manpower developments and provisions of standards, which have helped to guide the subsequent establishments of other generations and states universities in Nigeria. With the increasing population of qualified students for university education in Nigeria and the growing needs for scientific and technological developments, setting up more universities became imperative. Between 1970 and 1985, twelve additional universities were established and located in various parts of the country. The need to establish Universities to address special areas of Technological and Agricultural demand prompted the setting up of 10 additional Universities between 1985 and 1999. However, pressures from qualified students from each state who could not readily get admissions to any of the Federal Universities continue to mount on States Governments. It became imperative and urgent for some State Governments to invest in the establishments of Universities. In recognition of the need to encourage private participation in the provision of university education, the Federal Government established a law in 1993, allowing private sectors to establish universities following guidelines prescribed by the Government, Wikipedia (2012).

Today, Nigeria has over one hundred universities placed under the watchful eyes of the Nigerian University Commission (NUC). It is therefore the responsibility of the NUC to formulate policy documents that serve as a guide to all the universities irrespective of its proprietorship or status. To enable students to diversify broaden their perspective and provide a liberal education: (GST) courses were introduced and offered. Some of the GST courses are; gender and population studies, introduction to ICT, entrepreneurship and corporate governance, basic health care management, culture of the people, child rights and at least six mandatory faculty courses depending of area of discipline, *Unilag News* (2009).

Virtual learning environments (VLE) are widely spread in higher educational institutions in SSA, yet they are often under utilized by the institutions that employ them. Our educational planning must address the need to move beyond thinking about the VLE simply in terms of the particular package that an institution has adopted for the developed nations, and viewing it as a significant educational technology that will shape much of the teaching and learning process in the nearest future of SSA, but must evolve a methodology that will fit perfectly into our own environment so as to achieve the MDGs.

Considering how virtual learning environments can be successfully deployed and used for effective teaching, SSA educational planners must set out a model for effective use of VLEs, focusing on pedagogic application rather than a specific technology, and seeks to provide a bridge between pedagogical approaches and the tools educators have at their disposal. HEIs curriculum planners must be adequately advised to choose a VLE and encourage all those involved in the

deployment of VLEs to use them more productively in order to create engaging learning experiences.

## **INFORMATION AND COMMUNICATION TECHNOLOGY**

Information and Communication Technologies (ICTs) are critical to enhancing learning quality for higher educational institutions in sub-Saharan Africa if leaders in this region of Africa are striving to measure up and be globally competitive in the area of industrial growth as well as develop the capability to meet the demands of society and economy.

ICTs have a catalytic impact in three key areas:

- Productivity and innovation, by facilitating creativity and management;
- Modernization of public services, such as health, education and transport;
- Advances in science and technology, by supporting cooperation and access to information.

The pedestal on which ICTs rest is computer science and computer engineering.

Computers are generally acknowledged as facilitators of modern civilization. Today, there is no field of activity that is not being facilitated with the use of computers. From the highest industrial and commercial boardroom to the kitchen at home, the influence of the computer is but pervasive. Computers, no doubt, have become an indispensable tool to all and sundry. Little wonder it is being held that within the next few years, any person that is not computer literate will be cut off guard.

Teaching in Transnational Higher Education examines current trends and challenges that face students, teachers and institutions of higher education around the globe. As a result of this many universities offering courses in offshore locations must evolve methods and techniques that will annihilate or minimize any failure by embracing ICT, *Wallace, M. et al* (2008). With ICT students who could once not access an international qualification can now do so without leaving their home country, ... (2011). HEIs curriculum planners should define and take an in-depth look at the various types of transnational education, including: institutions that have campuses abroad, teach specific courses abroad, and form partnerships with diverse schools to teach jointly, *Wallace, M. et al* (2008).

According to Wallace, M. and Dunn, L. teaching in Transnational Higher Education should serve as a forum for debate on such insightful topics as:

- the modification of teaching to adapt to the needs of diverse students
- the use of technology in the classroom
- the view of higher education as a marketable service
- the importance of cultural awareness and understanding in a transnational classroom
- the complexities of assuring quality education across borders

Examples of transnational program worldwide including those in: Nigeria, Zambia, China, and the United Arab Emirates among others. Opinion of students and teachers participating in transnational programs of study should be sampled and taken into consideration in order to build a solid foundation for an enduring virtual learning environment thereby enhancing higher educational institutions in SSA.

## **THE e-Learning AS A VIABLE METHOD OF TEACHING IN HEIs IN SSA**

As a result of inadequacy of quantity and quality of academic personnel, the distance learning scheme should be strengthened to accommodate electronic learning technique in the face of paucity of funds. The Electronic Learning (e-Learning) technology is a teaching method that duels mainly on computer science and technology. The basic technological components required for the e-Learning teaching method are the computer systems and the internet facilities while the software requirements may vary from the convention software such as Microsoft utility packages like Microsoft words, Microsoft excel, etc; the e-Teacher application software and video tapes of recorded lectures, lecture notes from real teachers namely; the renowned expert in various fields of academic endeavours and the practising professionals from both private and public sectors.

The advantages of e-Learning over and above the conventional classroom learning method cannot be overemphasized. These include:

- its cost effectiveness
- it facilitates easy access to learning materials
- its convenience
- it reduces risk to human life
- it affords the less privileged the opportunity to access across the ocean education with unprecedented ease
- it enables both the students and the facilitators alike to have access to information that may never come their way were it not being for e-Learning
- it promotes interactions between experts in various fields of human endeavour's
- it strengthens the distance learning programmes of various HEIs in SSA

to mention but a few.

However, the e-learning is not without its own shortcomings some of which are enumerated below:

- since most of its activities are on-line, students may not be able to ask questions directly from the lecturer
- the facilitators are not willing to make available their lecture notes without adequate remunerations
- the erratic supply of electricity in Nigeria and some states of SSA is no doubt a big setback to e-Learning
- low level of awareness amongst intended users for whom the technology was designed
- the high illiteracy level amongst intended users of e-Learning in computer science and technology
- the use of obsolete equipments to facilitate internet connectivity in Nigeria and other state of SSA
- the use of substandard cabling and switching materials for internet connectivity in some states of SSA, Nigeria inclusive
- the hiring of unqualified workforce for internet connectivity in order to maximize profit and myriad of other factors.

## **LEARNING MANAGEMENT SYSTEM, THE UNILAG EXAMPLE**

The Learning Management System (LMS) refers to the overall method and strategies adopted in the process of impacting knowledge on students of HEIs which guarantees quality assurance. At the University of Lagos, Lagos, Nigeria with a total student population of 39,000; 800 faculty staff running some 2,593 courses consisting of 7 general studies courses (enrolment of at least 4,000 per course) and the faculty wide courses with enrolment of at least 500 per course. LMS started with the design of the curriculum for each program. Courses were design in a clear but simple fashion with the aim to achieve specific goals. In order to equip students with the changing realities of life, the university wide courses known as general courses were fashioned in such manner as to enable the students integrate with the ever changing world in the area of economic and the socio-political dynamism. To optimize the scarce resources, the university has adopted ICT through e-Learning where lecturers upload lecture notes for easy accessibility to students, *Unilag News* (2009).

In order to boost the e-Learning programme of the University the management encouraged partnership with the private sector of the economy in the area of provision of support material and human development. For instance, the MTN centre provides 24-Hour internet service to both staff and students alike at little or no cost, the LG centre at the faculty of engineering of the university provides ample opportunities for students of engineering to be exposed to the latest software for both civil and mechanical engineering drawings, Microsoft Incorporation has proposed a centre where application software notable amongst which is Mathematica to boost the computational prowess of prospective engineers from the University of Lagos and the provision of Internet facilities at the University's Botanical garden for staff and students who wish to work under relaxed atmosphere to mention but a few, *Unilag News* (2009).

To consolidate on the gains of the University's e-Learning programme, the management has set a deadline of March 31, 2009 to fully computerise the University through a Partnership for Technology Access (PTA) with Microsoft Incorporation Limited. In achieving this aim, the management had planned to liaise with various agencies to ensure that every staff and every student own a personal computer or a laptop, which can be purchased on instalment. This arrangement is aimed at giving both staff and students alike access to the information superhighway. Computer Literacy and Internet/Intranet Services had begun and frantic effort is being made to expand the current capacity and distribution of the existing facilities to accommodate interconnectivity in the students' hostel and academic area. Online lectures will be encouraged with strict compliance with the LMS. The challenges in introducing the LMS mode are no doubt enormous. Some of these challenges include content preparation and the setting up of QA mechanism to ensure conformance to standards and avoidance of plagiarism. Efforts are also geared at establishing virtual/digital libraries and both the National University Commission in Nigeria and the private sector (MTN Foundation, Zenith Bank et al) have contributed their immense quota to these efforts.

## **DISCUSSION**

In this paper we have investigated the roles computer science and technology played in enhancing the quality of learning in Higher Educational Institutions in Sub-Sahara Africa by exploiting ICT, e-Learning and Virtual/Digital Libraries options. The paper also discusses efforts at the establishment of virtual/digital libraries both by the National University Commission in Nigeria and the contribution of the private sector (MTN Foundation, Zenith Bank et al) to these efforts

We did expository study of the conventional teaching methods vis-à-vis the electronic teaching models. The role of information and communication technology as reflected in the e-Learning and virtual/digital library options were well exploited. A comparative analysis of the real teacher as it relates to e-Teacher reveals that e-Learning has lot of applications as it allows for more participants in learning process. However the opportunity to ask questions and receive reply to students' queries is a major setback. The fact that e-Learning comes with a lot convenience. For instance, a student can access lectures at the convenience of his room through internet whereas a student who must attend lectures in the classroom will have to contend with the risk to life, transportation stress to mention but a few. It is therefore imperative that all modes of learning in the HEIs be continuously processed through Quality Assurance (QA) checks.

## **CONCLUSIONS**

The paper has provided a pedestal for growing the techniques, skills and technology that would ultimately enhance learning quality in higher educational institutions in sub-Sahara Africa.

## **CONTRIBUTIONS**

In this paper we have looked at the role of technology in enhancing learning quality for higher educational institutions in sub-Sahara Africa, and the contributions to knowledge can be found in the following areas:

- Quality of education could be enhanced through virtual teacher since it is not possible to produce enough certified teacher
- Information Communication Technology (ICT) or open and distance learning institutes will provide a viable option since there could never be adequate supply of certified teachers to service our existing and emerging educational institutions. This would go a long way in achieving the much talk about millennium development goals. To enhance quality of higher education institutions in sub-Sahara Africa, the paper suggests that e-Learning compliments traditional teaching method(s) with over 40% efforts directed towards university sector. The concept of universal information technology (IT) as applied to teach the teachers programme through the internet would go a long way in educating the traditional teachers and the students alike in various areas of their educational endeavours.
- The paper also revealed that the current curricula on education in sub-Sahara Africa are not conducive to development. It is therefore important to tailor education towards rewarding goals and implement it on the targeted goals.

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## **Information Computer Technology in Public Sector: African Experiences and Opportunities**

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*While ICTs has become largely embraced by the private sector and to some extent by public sector, promotion of the use of information technology in managing crisis has remained nearly absent. Given its current merits in the private sector, there are no doubts about its potentials for crisis management. However, in term of research, there is a research gap on the opportunities ICTs can create for public sector. This paper aims at laying grounds for a larger research project about the impacts of ICTs on rebuilding civil administration in Africa. The ultimate goal of the project is to provide enhanced understanding of challenges and opportunities related to the use of ICT's in key state administrative functions in countries experiencing fragility. With the results from this project, we hope to bring new insights into the use of ICTs on rebuilding civil administration, efficiency and transparency of public administration, internal conflict handling, and improvement of health care system, payment of utility bills using scratch cards, justice systems /courts and population registries.*

### **Introduction of the research project**

A quick analysis of the literature shows a revolutionary effect that ICT has had on business transactions and a fast growth of Internet and mobile telephones on the African continent. As a communication medium, the internet seems to be an invaluable tool in enhancing the productivity of business activities and especially by streamlining business information. Several researchers have conceptualised ways in which that tool will upstage traditional marketing paradigms (Eisenmann, Hollowell and Tripsas, 2002, Keen and McDonald, 2000, Turban, 2000, Negroponete, 1995).

Both in B2B and consumer market domains; the internet has an effect on activities which occur through marketing channels such as:

1. Communication channels, which primary functions are to inform buyers and prospective buyers about the availability and attributes of a seller's products or services and to enable buyers and prospective buyers to communicate with sellers;
2. Transaction channels, which primary function is to facilitate economic exchange between buyers and sellers; and
3. Distribution channels, which primary function is to facilitate physical exchanges, the Internet particularly being useful for eliminating intermediate hands- customer relations, market decision support information and collaboration and coordination (Terpstra and Sarathy, 2000).

The United Nations Conference on Trade and Development (UNCTAD) notes in its use of the Internet for Efficient International Trade (2003) that the Internet can be effective in acquiring new clients and leads, obtaining key business information, serving better existing customers and reducing costs drastically. As UNCTAD notes in its E-commerce and Development Report 2002 foreword "e-commerce is one of the most visible examples of the way in which information and

communication technologies can contribute to economic growth. It helps countries improve trade efficiency and facilitates the integration of developing countries into global economy. It allows businesses and entrepreneurs to become more competitive. And it provides jobs, thereby creating wealth.

As observed, the Internet has grown rapidly on the African continent over the past few years ([www.internetworldstats.com](http://www.internetworldstats.com)). In spite of these developments, Internet development on the continent has been mostly confined to capital cities. Regional collaboration to address the need for improved ICT has increased in the different sub-regions though not without difficulties. The East African Submarine Cable System (EASSY), a project to wire up several African countries with high-speed submarine optical fibre (9,900km) is a such initiative which was hatched in 2003 (<http://www.eassy.org>).

Buhalis (2003) defines ICTs as not only including hardware and required software but also the Groupware and Netware as well as the intellectual capacity (Human Ware) to develop, program and maintain the equipment, which, in a broader view, allows talking about Information System. ICTs should be regarded as the entire range of electronics, computing and telecommunication technologies. Rapid technological development means that the more powerful and complex the ICT becomes and the more affordable and user-friendly they become, the more they will enable more people and organisations to take advantage of it. The ICT sector in Africa is undergoing tremendous developments, and in certain cases, it has had a significant impact on peoples' lives by allowing access to various ICT tools such as mobile phones, radio, fax, television and computers. Where income levels are low, infrastructure is underdeveloped and density of the population is low, challenges to accessing ICT is great though not insurmountable. Individual access is being developed in terms of community shared facilities such as Tele-centres, cyber-cafes and community information centres. Strategies for drawing people to use these facilities are essential for developing Africa countries.

While ICT has become largely embraced by the private sector and to some extent by public sector, promotion of the use of information technology in managing crisis has remained nearly absent. Yet, given its current merits in the private sector, there are no doubts about ICTs potentials for crisis management. If well used, ICTs could offer the international community and national governments recovering from conflicts and crisis, flexible and mobile tools with which to support the re-establishment of key governance functions in any troubled country. Finding appropriate tools based on quickly deployable communications infrastructure, collaboration tools and software applications developed jointly with national stakeholders and key international reconstruction and ICT experts could prove to be efficient in reconstruction process especially in a post-conflict societies and fragile or failed states (such as Republic Democratic of Congo, Ivory Coast, Somalia, Sierra Leone, Liberia, South Soudan etc).

In term of research, there is a huge research gap on the opportunities ICTs can create for helping the national and local governmental administrations to do their work in a more efficient, cost effective and transparent manner. For instance, within the state administration, ICTs can provide tools which assist the administration in transmitting information, gathering data, and facilitating efficient delivery services such as health care and education. In addition, ICTs can enable state administration people to discuss issues, make the people's concern known and help citizens, to hold their governments accountable and to participate more effectively in political processes. Thus, ICT is an essential component of the participation, transparency, and good governance that are increasingly recognised by many international and regional actors such as the United Nations



Economic for Commission for Africa (UNECA) as the crucial basis for development and poverty reduction.

Several African countries have adopted ICT policies with the aim of enhancing better and more effective governance with a view to reducing poverty, providing basic human needs, improving public administration, and enhancing democratization. For example, the Rwandan government has put forward a roadmap document called Rwanda Vision 2020 to spearhead the country's development with a goal of reaching a middle-income country status by year 2020. One extract from the 2020 Vision states:

*“In Rwanda, the changes in the mode of life as well as the adoption of technological innovations are very slow processes and the Rwandan population, not well trained and locked into itself, seem to willingly adapt to the situation. There is a clear need to adopt science and technology to modernize society and reinforce our human resource capacity in order to integrate technology in the national development”* (<http://www.rwandainvest.com>). *The National Information Technology Commission (NITC) and the Rwanda Information Technology Authority (RITA) were set up to lead process of creating information society and economy and act as national implementation and coordination bodies respectively.*

However, Africa's use of ICT for improving state governance is progressing slowly. Where it has been used effectively, it has brought significant impact including facilitating informed decision making, regional co-ordination and integration, intra-governmental coordination and communication, enhanced interaction between government and citizens and improving public administration and efficiency.

Diffusion and adoption of ICTs in manufacturing and services sectors has been particularly rapid. The nature and extent of ICT adoption has been explored quite extensively in research as evident in literature. In the case of Africa, the nature and extent of adoption in the manufacturing and services sectors has been addressed in various research programmes (e.g. Research ICT Africa, supported by IDRC). This information is useful in understanding the perverseness of ICT's and extent and patterns of access.

So far, what has not been explored adequately is the impact of ICTs on rebuilding civil administration in situations State Fragility. This project attempts to contribute in filling this gap.

The overall objective of this project is to explore the impact of ICT's on rebuilding civil administration in situation of state fragility. Using benchmarking- techniques, this research project intends to analyze 5 cases in 5 different African countries (Ghana, Kenya, Ethiopia, Rwanda and Uganda) where ICTs have been used successfully in supporting the implementation of key administrative functions. This is necessary in order to identify opportunities and constraints for cross-regional learning. There are several reasons for selecting these five countries:

- For instance, Ghana has been portrayed as one emerging countries in West Africa and the use of ICTs Technologies in public administration has become one of the most advanced in the region.
- In East Africa, Kenya was considered to be aregional economic power house for so long. The country has embraced the use of ICTs also in the public sector even if the last election events have put the county on a brink of civil war. Yet, the effectiveness in the

use of ICTs and other communication tools has proved to be efficient in bringing people together.

- Rwanda was one of nine African countries which won the first ever awards given for improved health services through the use of ICTs as well as developing system that allows customers throughout the country to pay utility bills using scratch cards. The Technology in Government in Africa (TIGA) awards came about through collaboration between UNECA and the Canadian Policy Resource Centre in training African policymakers.
- In the case of Ethiopia, the government of Ethiopia has recognized the benefits of incorporating ICT into court administration reform making legal redress more accessible to citizens and responsive to their needs
- For Uganda therefore, embracing ICT has a lot of specific advantages that not only have enabled to improving sustain development, but also ICT are being used in population registration systems.

### **Aims and objectives**

This project aims at analysing the impact and use of ICTs on rebuilding civil administrative functions in situations of state fragility in Africa. More specifically this project will address the following main questions:

1. What are the innovative ways in which ICT's are being in used to rebuild functions of civil administration with a view to strengthening state resiliency in the country in question?
2. How is conflict sensitivity being incorporated into national ICT projects and what can we learn from the more ICTs advanced countries on the African continent?
3. For instance, how have the ICT projects addressed the issues of:
  - Unreliability and shortage of electricity;
  - Low levels of (ICT) literacy of the civil servants;
  - Security of the equipment?
4. In what ways are ICTs being used to facilitate the decentralization process underway in many countries in Africa?
5. More specifically, which lessons can we draw from the case countries:
  - Ghana: In what way are ICTs being used in coordinating and to affect efficiency of the public administration?
  - Kenya: In what way ICTs may be used in preventing civil war and in enhancing reconciliation
  - Ethiopia: In what ways are ICT being utilized in justice systems and or in the courts?
  - Rwanda: How are ICTs being utilized in paying utility bills using scratch cards and how ICTs are being used in improving the health care system?
  - Uganda: How are ICTs being used in population registration systems and what have been the merits and constraints of such a system so far?

The ultimate goal is to provide enhanced understanding of challenges and opportunities related to the use of ICT's in key state administrative functions in countries experiencing fragility. With the results from this project, we hope to bring new insights into the use of ICTs on rebuilding civil administration in state fragility in Africa, efficiency and transparency of public administration, internal conflict handling, and improvements of health care system, payment of utility bills using scratch cards, justice systems/courts and population registries. This above information is particularly important because it will help development practitioners, policy advisers, community representatives and government officials who are responsible for influencing national efforts towards the use of ICT and the national development project.

### **Approach and methods**

In seeking to examine how ICTs are being used on rebuilding civil administration functions, a number of interviews will be held in 5 countries, focusing on each country ICTs in the public sector. A qualitative approach based on case studies is considered appropriate given the small amount of prior empirical research in the broad area of ICT, and sensitive nature of the data needed. This approach requires collaboration between researchers and different institutions.

### **Data collection process**

In order to understand the impact and use of ICT's on rebuilding civil administrative functions of state fragility in Africa, a qualitative method will be used to collect data and survey research supported by semi- structured interviews will be conducted with relevant government staff (related to ICT delivery, end user experiences, ICT policy formulation and implementation) in Ghana, Kenya, Ghana Ethiopia, Uganda and Rwanda. In addition, we intend to approach the general ICTs users in chosen with a quantitative survey. This will be done in collaboration with local educational institutions and universities.

### **Data analysis and reporting**

In order to achieve the objectives of this study, we will conduct a preliminary data analysis to determine how ICT are being in used to rebuilding functions of civil administration across government. A Qualitative content analysis will be used to code and to analyse interviews with relevant Ministries in the capital and relevant government offices in the selected rural areas. In addition, SPSS will be used to analyse the quantitative data and to display the key results. At the end we will compile a sort of country report.

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## **Ethics, Law/Legal Corporate Social Responsibility**

## **The state of Corporate Social Responsibility in Africa**

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*The concept of corporate social responsibility (CSR) is gaining roots in Africa with companies increasingly considering social, economic and ecological issues in the business practices yet its scholarship is negligible. This paper attempts to fill this gap by examining the meaning and practice of CSR in Africa based on a literature review of 145 journal articles published between 1991-2011 by practitioners and scholars on CSR in five Africa countries: South Africa, Nigeria, Ghana, Kenya and Malawi.*

### **INTRODUCTION**

Corporate Social Responsibility (CSR) is a global concept which is quickly finding its way into company practices in Africa. Its scholarship is however, more pronounced in developed (e.g. North America, Europe) and increasingly in more transitional (e.g. India, China, Brazil) economies. Previously little global attention had been paid to CSR in Africa but this is changing rapidly with growing interest on a) Africa as a continent; b) African management practices; and c) practical dilemmas of how companies balance the desire for global integration with the need for local responsiveness. Globalization has also exposed the relative ease with which companies are able to relocate their activities in countries with cheap labour, less stringent regulatory environment, for example. There are claims that multinational corporations (MNCs) or transnational companies (TNCs) operating in African countries may be lax on their social, economic and ecological impact as most African countries do not have stringent mechanisms or policies to demand and uphold CSR. In essence this leads to suggestions that CSR varies across different countries; that is, its meaning, orientation, relevance, application, levels of intensity manifests differently in different institutional contexts (Matten and Moon, 2008; Chapple and Moon, 2005). This paper examines the CSR practices in Africa and proceeds as follows: first, the concept of ‘corporate social responsibility’ is introduced; second, the methodology employed for this paper is discussed; third, the findings on CSR definitions, actors, issues and processes as well as challenges hindering CSR implementation are presented; and fourth, the paper concludes with a call to action.

### **CORPORATE SOCIAL RESPONSIBILITY: A DEFINITION**

The origin of the CSR concept can be traced to the period of the industrial revolution when early industrialists provided public goods to their employees and the local communities. Its early manifestation was philanthropy and paternalism by businessmen and entrepreneurs sometimes deeply rooted in religious foundation (Bowen, 1953, p. 4). The concept of CSR has been evolving and changing over time. According to Chapple and Moon (2005), the first wave of CSR is community; the second wave is socially responsible production processes, and the third wave is employee relations. Research has shown that the concept of CSR is dynamic and is essentially a contested: it means something but not always the same thing to everybody (Matten and Moon, 2008). This presents unique challenges of how it might be understood, framed, implemented, and integrated into organizations’ systems and cultures.

CSR is about companies taking responsibility for their impact on society. CSR can be defined as ‘the duty by companies to the development of its stakeholders, and to the avoidance and correction of any negative consequences caused by business activities’ (Muthuri and Gilbert,

2011, p. 467). Archie Carroll (1979) defines CSR as the economic, legal, ethical and philanthropic responsibilities of business to society at any given time. This categorization of CSR into these four facets is simple and consensual; however, its application in other jurisdictions particularly in Africa has been challenged with claims that it is strongly embedded in the American culture and fails to capture the complexity of issues facing the continent leading scholars to call for the “Africanisation” of the CSR agenda (Visser, 2006; Hamann et al., 2005). To understand the meaning and practice of CSR in Africa, this paper examines and analyses published research as discussed in the methodology section next.

## **METHODOLOGY**

This research aims at exploring the landscape of CSR issues and practices in Africa based on a literature review of empirical work published between 1991-2011 by practitioners and scholars on CSR in Africa. The paper builds on Lockett et al’s (2006) methodology. The literature review focused on published research with the following keywords: ‘*corporate social responsibility*’, ‘*environmental responsibility*’, ‘*sustainability*’, ‘*sustainable development*’, ‘*business ethics*’, ‘*corporate governance*’, ‘*corporate social investment/involvement*’, ‘*philanthropy*’, ‘*stakeholder management*’, ‘*partnerships*’, ‘*Millennium Development Goals (MDGs)*’. The variety of keywords employed was important so as to give a comprehensive picture of what might be considered ‘CSR’ in Africa. The searches for relevant studies were conducted using the Business Source Premier (EBSCO) and ABI/INFORM Global new platform (Proquest) online databases. Mainstream management and practitioner journals (e.g. *Academy of Management*, *Journal of Management Studies*) were analyzed. However, as these core management journals are North American based and may not fully represent research on Africa and by scholars of Africa, African journals (e.g. *Journal of African Business*, *Development Southern Africa*) and other leading Social Responsibility/Business Ethics (e.g. *Journal of Business Ethics*, *Business Ethics Quarterly*) were included. Institutional research reports (e.g. GTZ) and books written on the subject area and focusing on Africa geography were also reviewed.

The online database search generated 145 journal articles which capture the state of CSR in Africa broadly, and specifically the situation in the five countries that this paper focuses on: South Africa, Nigeria, Ghana, Kenya, and Malawi. The abstracts of the published studies on CSR in Africa were read to ensure that relevant materials were considered for this research. The primary technique of data analysis was ‘data coding’ which involved the construction of analytic coding categories from the data, refining these codes, and integrating the codes as suggested by Charmaz (2006). Units of data was classified and labelled mostly based on categories such as CSR issues (e.g. community, environment), CSR process (partnerships, donations), philosophy of CSR (normative, strategic), constraints/challenges (resource demands, time). Microsoft Excel software was used to manage and handle masses of raw data that were used in the data coding process. A narrative approach was employed in presenting the CSR issues and processes as explained next.

## **FINDINGS**

### **The ‘Corporate Social Responsibility’ Concept as Defined in Africa**

From the literature reviewed, the definition of CSR in Africa is rather ambiguous as a number of terms such as ‘*corporate social investment*’, ‘*corporate citizenship*’, ‘*business ethics*’ are used interchangeably. There is a notable preference to describe CSR as ‘corporate social investment’ as revealed in a number of studies: for example, Muthuri (2008), Visser (2006), GTZ (2009) and Ofori and Hinson (2007). Despite the fact that the definition and understanding of CSR is contested with assertions that the concept is a ‘*western-imposed agenda*’ (Visser and Tolhurst,

2010), CSR is influenced by African philosophies such as the concept of '*communalism*' and '*ubuntu*' (Muthuri, 2008; Hamann et al., 2008). The historical events in African countries have to some extent determined and shaped CSR agendas and understandings; for example, according to Hamann et al. (2005) and Visser (2006), CSR in South Africa has been greatly influenced by historical events of apartheid, injustices and inequalities. CSR incorporates various local and global initiatives such as The Sullivan Principles (developed in 1970 to demand corporate accountability and to pressure MNCs to denounce apartheid), and the 1994 King Report on Corporate Governance (which requires companies listed in the Johannesburg Securities Exchange [JSE] to report on their social, economic and environmental performance).

According to the literature reviewed, CSR in Africa differs from that in developed countries. Visser (2006) argues that Carroll Archie's CSR pyramid may not be the best model for understanding CSR in Africa as the priorities are different from the well accepted American ordering where the economic and legal responsibilities are required of companies, ethical responsibilities are expected of business, while philanthropic or discretionary responsibility is desired of companies. In the African context, according to research by Visser (2006), GTZ (2009), Ofori and Hinson (2007), and Muthuri and Gilbert (2011), economic and philanthropic responsibilities are required of companies while ethical responsibility and legal responsibility are expected of companies. Lindgreen et al. (2010) and GTZ (2009) conclude that most managers seem to recognize that the economic and social objectives are not at odds.

### **The Drivers for Corporate Social Responsibility in Africa**

The research also sought to explore the question: what shapes the focus of CSR practices in Africa? It emerged from the literature reviewed that companies engage in CSR driven by internal and external forces. The internal factors relate to the business rational for implementing CSR whilst external factors respond to needs and expectations of actors such as governments (Idemudia, 2010), institutional investors (Dawkins and Ngunjiri, 2008), multinational corporations (Amaeshi and Amao, 2009), non-governmental organizations (NGOs) (Hamann et al., 2008), communities and international organizations (Muthuri, 2008). The role of actors affect the uptake and practice of CSR in Africa with CSR drivers pointing to governmental regulation, civil or social regulation, and, or self regulation as explained below.

Companies are engaging in CSR as a form of self regulation. Herein, companies go beyond compliance and actively define, shape and enforce social and ethical behavior within their organization, sectors or even countries in which they operate. Companies may individually develop their code of practice to implement CSR, or may partner with other industry players to develop national or industry guidelines on responsible business: for example, The Ghana Business Code 2006, a multi-stakeholder initiated code of conduct which prescribes business conduct and is heavily influenced by the 10 principles of the UN Global Compact (see [www.ghanabusinesscode.com](http://www.ghanabusinesscode.com)). In other instances, companies partner with NGOs and governments to create multi stakeholder governance initiatives to tackle specific social, ethical and environmental issues (Muthuri, 2008): for example, The Business Action Against Corruption (a recipient of the World Bank Anti-Corruption Collective Action Award) which tackles corruption and promotes investment and sustainable development in ten Africa countries (<http://www.baacafrika.org>).

Motivated by instrumental, altruistic and strategic reasons, business related agendas drive companies to consider social and environmental performance alongside their financial performance. Corporations engage in CSR driven by normative or altruistic motives like '*desire to give something back to society*' (Ofori and Hinson, 2007) or because they consider themselves '*corporate citizens*' (Muthuri, 2008). Companies also embrace CSR for instrumental reasons



such as manage risks, gain and maintain stakeholder legitimacy and license to operate, improve reputation, lower costs, increase product differentiation (e.g. eco-branding; base of the pyramid branding) or enhance financial performance (Lindgreen, 2010; Amaeshi and Amao, 2009; GTZ, 2009; Hamann et al., 2008; Visser and Tolhurst, 2010). Companies also engage in CSR to preempt governmental regulation (Idemudia, 2010). CSR for some companies is also a reflection of corporate values, and its institutionalization increases the overall competitive posture of the firm. Investors want to invest in companies that demonstrate good ethical values, corporate governance and responsible practices.

The government has been a driver of CSR in some African countries. Despite the fact that most African countries are accused of relatively weak legislation and poor enforcement of regulation, governments to some extent have overtly or covertly influenced the extent to which companies conform to ethic, social and environmental obligations (Hamann et al., 2008; Idemudia, 2010; Visser and Tolhurst, 2010). Compliance particularly with governmental regulations and national guidelines encourages the uptake of specific CSR issues such as environment, social development, and corporate governance. The environmental regulations in some instances are spearheaded by quasi-governmental agencies like The National Environmental Management Agencies (NEMA) in Kenya and Uganda which are tasked with the management of the environment, and the development and implementation of environmental policies. The South Africa government demonstrates impetus for governmental regulation across various social issues; for example, the Broad Based Economic Empowerment (BBBEE) Act of 2003 which aims at redressing the issue of business ownership, enterprise development, skills development, procurement that traditionally did not favour black Africans. Other examples of government regulations include The Ghana Children's Act (1998) which establishes parameters for defining child labour, and the Transformation Economic and Social Empowerment Framework in Namibia which is akin to the BBBEE of South Africa.

Institutional investors play a key role in shaping CSR. Of the five National Stock Exchanges in the countries of study, South Africa's JSE can be considered a leader in the development of corporate governance code of conduct (Dawkins and Ngunjiri, 2008). It is also a world leader on market regulation and sustainable investment ([www.world-exchanges.org](http://www.world-exchanges.org)). In May 2004, The JSE launched the 'Socially Responsible Index', the first in an emerging market, to monitor the extent to which listed companies commit to integrate CSR and sustainability principles into business processes and practices. In countries where CSR or sustainability reporting regulation is absent for example in Kenya, Nigeria, Ghana and Malawi corporate disclosures are voluntary. According to Dawkins and Ngunjiri (2008), the surge in 'CSR' or 'sustainability' reports in Africa especially among big companies is evidence of companies becoming more receptive to stakeholder concerns and expectations.

The civil society or non-governmental organizations (NGOs) provide what is referred as social or civic regulation. NGOs play a crucial role in the monitoring of business behavior. NGOs also bring to the global attention corporate malpractices as experienced by Shell in the Niger Delta in Nigeria (see Ite, 2004; Idemudia, 2010). However, relative attention in the literature is given to role of NGOs as drivers of CSR in Africa. Additionally, the presence of global institutions (e.g. UN Global Compact) which act as learning networks and international guidelines (e.g. The Global Reporting Initiative, The Organization for Economic Cooperation and Development – OECD Guidelines for Multinationals) and certification standards (e.g. International Organisation for Standards; Fairtrade) certainly influence CSR in Africa by setting principles that guide corporate practices and CSR implementation and evaluation (see Hamann et al., 2005; 2008). These learning networks also provide organized dialogues among corporations, and between corporations, governments and NGOs. Industry actors (e.g. Association of Ghana Industries) or

governmental agencies (e.g. Kenya Bureau of Standards) take leadership and champion the implementation of global CSR instruments such as ISO 26000 Standard, The Extractive Industries Transparency Initiative (EITI), Ethical Trading Initiative (ETI) and the Equator Principles for the finance sector.

### **CSR Actors in Africa**

This section explores who is engaging in CSR and considers if size of companies really matter. It is evident from the literature that CSR initiatives and efforts differ across companies in Africa. The trend suggests that companies - particularly the MNCs and TNCs are increasingly engaging in social, ethical and environmental initiatives whilst many have instituted CSR policies, CSR departments and personnel, CSR programmes or even set up corporate foundations (GTZ, 2009; Visser and Tolhurst, 2010; Muthuri et al., 2009; Ofori and Hinson, 2007; KCDF, 2006). According to Muthuri and Gilbert (2011), the rise in foreign direct investment has led to the uptake of CSR practices with MNCs leading in its uptake (100%) followed by transnational corporations (88.8%) and local national firms (61%). GTZ (2009) in their research on CSR practices of companies operating in nine countries give a clear indication that foreign companies export their CSR behaviours to host countries whilst other companies mimic their practices. Similar observations were made by Amaeshi and Amao (2009) in their analysis of seven MNCs operating in the Nigerian economy.

CSR also seems to be largely influenced by specific industry factors. For example, in Kenya there is evidence that industry peers mimic each other's CSR activities. The GTZ (2009) nine country study observes that different industries prioritize specific CSR issues: for example, companies in the manufacturing sector focused a lot on community and environment whilst the workplace application was lacking. The focus on environment was lacking in the retail sector. Community issues were certainly considered a priority across all industries. The reporting of CSR also varies across sectors. Muthuri and Gilbert (2011) observe that the reporting of CSR is least exercised by companies in the media, communications and transport industries whilst those companies in technology, manufacturing, finance and wholesale/retail mentioned CSR on their website. More generally, CSR is a prominent theme in Africa's mining, oil and gas sectors, and also in the agricultural sector particularly amongst companies dealing with horticultural, floriculture, tea, coffee and cocoa farming perhaps due to the socio and ecological impact of mining and farming activities.

There is evidence of increasingly institutionalization of CSR into the company systems and culture manifested through business practices and CSR processes such as employee volunteering, CSR reporting, budgetary allocation, establishment of CSR units, and the appointment of personnel with CSR responsibilities. Most companies located their CSR function in corporate affairs, human resources, public relations, marketing and communications departments (KCDF, 2006; Muthuri and Gilbert, 2011; GTZ, 2009; Hamann et al., 2005; Ofori and Hinson, 2007). Even if there is an increasing trend for dedicated CSR staff especially in South Africa according to GTZ (2009) the rest of Africa lags behind as the research further shows that in the other eight countries of their research, staff only engaged 20% of their time on CSR with CSR closely linked to marketing, public relations and branding. The location of CSR in many companies speaks volumes of CSR orientations and perception as a risk management and reputation strategy but not as sources of opportunity for growth and development of firms.

### **CSR Issues and Processes**

The research did examine the nature and orientation of CSR practices i.e. the key CSR issues companies' target and the processes employed in CSR implementation. The growing number of social and environmental scandals (e.g. Shell in Nigeria) as well as development challenges in

Africa such as poverty, HIV/AIDS, infrastructure development, digital divide, poor healthcare services, high illiteracy, high child mortality play a significant role in shaping corporate practices (Visser and Tolhurst, 2010; Ofori and Hinson, 2007; Idemudia, 2010; Hamann et al., 2008). It was evident from the literature review that companies prioritized the following CSR issues: poverty reduction, community development, education and training, economic and enterprise development, Health and HIV/AIDS, Environment, Sports, Human Rights, Corruption, Governance and Accountability respectively (see Table 1).

The findings suggest that CSR initiatives can be categorized under four pillars: community, environment, workplace and marketplace. Firstly, CSR issues and processes dominate under the community pillar. The community is indicative of the altruistic nature of CSR practiced in Africa with many CSR initiatives tailored to address national concerns such as HIV/AIDS, health, education, and the environment. These mostly reflect the socio-economic conditions in countries companies operate (Ite, 2004; Amaeshi and Amao, 2009; Ofori and Hinson, 2007). It is with interest that most CSR policies address philanthropy with no direct relationship to the company's core business or company strategy (Muthuri, 2008; GTZ, 2009; KCDF, 2006): herein, CSR is rather ad hoc and is relatively not embedded in most companies. Secondly, the environment seems to garner a lot of interest among companies with issues of water management, recycling, pollution being very popular (GTZ, 2009; Ofori and Hinson, 2007). This perhaps is indicative of increased global anxiety as to the state of the environment and concerns around climate change, and human-wildlife conflict (Muthuri and Gilbert, 2011). Thirdly, the workplace pillar focuses on the internal functioning of companies with health and safety, working conditions, corporate governance, HIV/AIDS in the workplace, equal opportunity of interest for companies (Hamann et al., 2008; Ofori and Hinson, 2007). Prevalence of a strong labour movement in South Africa significantly influences employee relations issues as argued by Dawkins and Ngunjiri (2008). HIV/AIDS workplace programmes are very popular as health issues of employees are a major cost to companies with companies providing antiretroviral drugs, health programmes, counseling, and hospital care (Hamann et al., 2008; GTZ, 2009). Fourthly, the marketplace pillar scrutinizes the quality of products and services and their impact on consumers and society, including corruption arising from marketplace transactions (Visser and Tolhurst, 2010; Hamann et al., 2008; Ofori and Hinson, 2007).

**Table 1: A Four-Dimensional Analysis of CSR Issues and the Associated CSR Processes**

<i>CSR Pillar</i>	<i>CSR Issue Focus</i>	<i>Associated CSR Processes</i>
Community	Poverty alleviation, HIV/AIDS, health, education, training, environment, social entrepreneurship, rural development	<ul style="list-style-type: none"> <li>• Philanthropy</li> <li>• Donations</li> <li>• Partnerships</li> <li>• Foundations</li> <li>• Sponsorships</li> <li>• Awards</li> </ul>
Environment	Pollution, water management, recycling, afforestation, biodiversity, drought and climate change	<ul style="list-style-type: none"> <li>• Partnerships</li> <li>• Environmental management</li> <li>• Sponsorships</li> </ul>
Workplace	Working conditions, wages, health and safety, HIV/AIDS, diversity and equal opportunity, corporate governance, sexual harassment, employee privacy	<ul style="list-style-type: none"> <li>• Codes of conduct</li> <li>• Partnerships</li> <li>• Employee volunteering</li> <li>• Certification</li> </ul>
Marketplace	Pricing, Quality of goods and services, Product	<ul style="list-style-type: none"> <li>• Partnerships</li> </ul>

	safety, Bottom of the Pyramid innovations, Corruption, Tax avoidance and evasion, responsible marketing and consumption, labeling and packaging	<ul style="list-style-type: none"> <li>• Sponsorships</li> <li>• Codes of conduct</li> <li>• Labels</li> <li>• Certification</li> </ul>
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**Challenges Hindering the Institutionalization of CSR in Africa**

Muthuri et al. (2009) have argued that companies in Africa operate at philanthropic and transactional levels and very few firms have integrated their CSR practices into the corporate strategy. So why is CSR not at an advanced stage in Africa if we were to compare it to the picture painted of western based companies? A number of institutional challenges that hinder CSR in Africa are suggested: first category relates to organizational specific internal challenges. The argument is that low executive management commitment and support; a lack of resources to finance CSR related functions, innovations and programmes; and limited technical knowhow in organizations to enable the design, implementation, monitoring and evaluation of CSR oriented initiatives hampers the uptake of CSR in Africa. To address these challenges, companies need to make a strong business case for CSR, raise CSR awareness within the firm, clearly articulate the role of CSR in organizations, align CSR and other organizational objectives, train and build employees capabilities around CSR behaviours, and encourage organizational learning centering around sustainability and corporate social responsibility.

Second points to the resource challenge with clear gaps in social provision which has necessitated companies to step in and provide basic amenities or administration of citizenship (Muthuri 2008; Idemudia 2010). African countries have moved away from their post-colonial governance orientations where governments played a dominant role in economic development and the provision of social goods. Economic liberalization and privatization of state corporations through the stock exchanges has seen more companies step into those governance roles which were once the realm of governments. This has encouraged companies to adopt a philanthropic orientation to CSR as the private sector is perceived as a key development agent in Africa. To ensure that CSR address development challenges, companies should consider balancing social and economic objectives of the firm in ways that meets societal expectation whilst providing value to the organization.

Third category relate to the regulatory challenge with problems pointing to weak institutional environments where existing laws are flouted. As much as it is widely accepted that governments can act as drivers for CSR, the uptake for social responsibility is hampered by lack of government regulation or enforcement of the same (Ite, 2004). There is no explicit CSR public policy with the exception of BBBEE, and different regulations address aspects of CSR such as employment, health and safety, environment, corporate governance, etc. Most authors raise claims of government’s lack of capacity and mixed priorities where social responsibility is considered as hindering economic development: for example, arguments that paying beyond minimum wage to enable livable wage would increase the cost of doing business in Africa (see Visser and Tolhurst, 2010).

Fourth category of challenges point to a lack of cohesive social movement and other important CSR related institutions capable to advance civil regulation (however, it is important to point exemplars in civil regulation on particular issues like Human Rights and the Niger Delta {e.g. the case of Ken Sarowiwa} or social issues/mobilizations in South Africa). CSR is about how business and society interact but there is a lack of robust stakeholder democracy in Africa and this weakens the role of civil society as a driver of CSR. Companies should consider NGOs and

CBOs as potential partners, and not adversaries, in CSR initiatives as they have unique capabilities and other complementary resources that companies can utilize so as to deliver on their CSR objectives and goals. These institutions can also provide practical specialist knowledge or advisory services as well as helping inculcate a culture of responsible and ethical behaviours in society. The stock exchanges are important institutions that play a key role in the promotion of CSR for example, the establishment of Socially Responsible Investment (SRI) indexes requiring companies to address, integrate and report on social, economic, and environmental performance. SRI ought to be encouraged because they are good tools to influence corporate behaviour and encourage good corporate governance as companies are expected to have in place policies, management and performance reporting systems. SRI is also a good portfolio management filter, and stakeholders can use SRI to challenge or reward companies for their social, economic, and environmental performance.

## CONCLUSION

The above narrative signals that national business systems shape the nature and extent of the institutionalization of CSR in Africa. Most authors point to the socio-economic context companies operate in as influencing the social issues and CSR processes of companies with very few exceptions like Lindgreen et al. (2010) who argues that cultural or socioeconomic conditions do not influence the extent of CSR in companies located in Malawi and Botswana when compared with CSR practices of companies located in the USA. The extent to which companies embed social, ecological and economic concerns into their business practices varies. It was evident in the literature reviewed that social involvement dominates companies' social responsibility practices. If we were to map the stage of CSR in Africa using Mirvis and Googins (2006) typology, CSR in Africa (with the exception of South Africa) can be considered to be in the 'engaged stage' with very few exceptions where companies particularly the MNCs and TNCs operate at the 'innovation', 'integration' or 'transforming' stages. Very few companies are operating at the 'transformative' stage where companies are expected to make a lasting contribution in the systemic changes of markets, communities and countries where they operate. Examples of CSR leaders are Anglo American in South Africa with their Socio-Economic Assessment Tool; The Safaricom in Kenya with their ground breaking M-Pesa initiative.

All in all, the nature of CSR in Africa is through philanthropy and there is evidence that it is yet to be embedded into business practices. It is worth noting that Africa continues to be a global economic player with small to large enterprises engaging in global supply chains; hence, multinationals will continue to impose demands on their supply chains to address issues such as human capital, labour standards, corruption and bribery, human rights, poverty reduction, child labour, health and safety. Companies will be required to address the aforementioned issues as an important avenue for Africa's development in addition to CSR being a powerful tool for companies to use for the creation of shareholder value. Significantly, Africa as a continent will have to embrace 'CSR' or 'sustainability' concepts in order to access markets in developed world and remain competitive at a global stage.

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## **Corporate citizenship: A study of the social and environmental disclosure practices of Ghanaian Corporations**

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*This paper examines the concept of social and environmental reporting mechanisms in the manufacturing sectors of the Ghanaian economy. A content analysis of corporate social reports of the various organizations was used by developing a systematic coding scheme based on the reporting mechanisms and objectives of the study. Findings show that even though only 50% of the organizations studied do regular reporting, the quality of the disclosures needs to be improved. Results also show that the various social reports are not easily accessible by stakeholders. The paper provides suggestions on the research needs to improve both internal reporting and external disclosures of Ghanaian organizations through effective executive and regulatory framework.*

### **Introduction**

Today, management of businesses is concerned about whether the corporate sector has some responsibility to improve the society or it is to rather improve its earnings. In most developing countries, a firm is generally viewed as an economic institution that provides wanted goods and services for public consumption and a profit for the owners (Potluri and Temesgen, 2008). Even though Business organizations are established to provide goods or services, to achieve this purpose, social, cultural, and environmental factors must be considered. Therefore, it is imperative that as businesses operate in communities and expect to maximize profits to shareholders, they (the companies) conduct their businesses responsibly. These organizations must consider the needs of investors, employees and all other stakeholders, such as business partners, consumers and community interest groups. Corporations must recognize these legitimate expectations and consequently contribute to the broader community by responding to calls by stakeholders for greater transparency and accountability.

In response to the increasing demand for corporate accountability, companies must develop a social reporting process in line with international standards. The social reporting system is designed to identify gaps between what corporations think is responsible behaviour and what society expects of responsibly operating companies. It is recognized that all organisations or companies have stakeholders that are critical for the continuous existence of the organisations or companies. The critical stakeholders include customers, suppliers, employees, and investors. Companies also have secondary stakeholders like communities, the media and local government that are affected directly or indirectly, by the company's decisions or business activities (Werther and Chandler, 2006). It is therefore imperative for the existence of a harmonious relationship between the companies and the various stakeholders since the latter are affected by the formers' operations. An effective way of ensuring transparent and good corporate citizenship behaviour between the two parties is through social or sustainability reporting. Corporate social reporting is a process of self presentation and impression management initiated by companies to insure various stakeholders are satisfied with their public behaviour (Patten, 2002).

This paper will seek to investigate some full-time manufacturing and semi-manufacturing companies in Ghana on their disclosure practices. Specifically, whether the companies' have social reporting processes, and are designed to embed the principles of corporate social responsibility within the organizations. The paper also seeks to extend prior research in the area of corporate social reporting literature by analyzing the development of social reporting practices of companies as well as firm-specific determinants of reporting mechanism.

### **Research Questions**

The questions that guide this study are:

1. Is social reporting an important issue reflected in the operations of Ghanaian companies?
2. What are the constituents of the social reporting mechanisms?

### **Literature**

As a result of increasing globalization leading to greater environmental and social awareness, the concept of companies' responsibilities beyond the purely legal or profit-related has gained new impetus. In order to be successful, organizations have to be seen to be acting responsibly towards people, planet and profit sometimes also known as the triple-bottom line. This means that for an organization to be sustainable it must be financially secured; it must minimize its negative environmental impacts; and, it must act in conformity with societal expectations.

According to Guthrie and Parker (1990), the art of social reporting can be traced back to the 1880s practices of social disclosure by organizations. Corporate social reporting is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large (Gray et al., 1988).

Various attempts have been made by researchers such as (Guthrie and Parker, 1990; Adams et al., 1998; Neu et al., 1998; Hooghiemstra, 2000) to explain the motivations behind corporate social reporting behaviour through organizational legitimacy theory and stakeholder theory. Whilst Hackston and Milne (1996); Tsang (1998) and Purushothaman, et al. (2000) argue that Accounting perspectives have had the tendency to dominate corporate social reporting literature, Comparative studies across different national contexts have found that the practice of social disclosure depends on specific national influences (Adams et al., 1998; Guthrie and Parker, 1990; Williams and Ho, 1999). Elliott and Jacobson (1994) suggest that the most important benefits from information disclosure by companies is the reduced cost of resources resulting from reduced information asymmetry while the primary costs of information disclosure are competitive disadvantage and information production costs. Competitive disadvantage refers to the use of the supplementary information by competitors to the disadvantage of the corporation disclosing the information while Information production costs refer to the costs of data collection and processing, and publishing the information (Radebaugh and Gray, 1997). Large organizations are expected to produce additional information for management purposes and to better afford the costs of additional disclosure in annual reports. A large number of studies on corporate disclosure practices have used the information production costs to explain voluntary disclosure in annual reports, and the results have been that larger companies are expected to have the resources required for additional information for internal purposes (Ng and Koh, 1994; Suwaidan, 1997; Depoers, 2000; Camfferman and Cooke, 2002). And, since the marginal costs of providing additional information for larger companies are lower than smaller companies, larger companies are more likely to disclose additional information than smaller companies.

Disclosure practices can also be influenced by market forces, and this assumption is based on the fact that directors of organizations who want to issue public or debt equity would increase their



disclosure around the period of offerings to reduce the company's cost of capital. If organizations disclose information on their practices, they end up reducing the cost of investment as a result of the reduction of the information asymmetry in the marketplace, thus lowering assessment risks associated with expected future returns and hence transaction costs.

Corporate citizenship and responsibility are the obligations of firms to use their resources in ways to benefit society through "committed participation as a member of the society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company" (Kok et al., 2001, p. 288). Consistent with this, a company should assess the appropriate and effective actions it takes regarding transparency, governance, community economic development, work-family balance, environmental sustainability, human rights protection, and ethical investor relationships. Robertson and Nicholson (1996) affirm that corporations and firms should describe their behaviours to specific stakeholder groups, in order to provide a useful framework to evaluate corporate social responsibility through social reporting activities. Accordingly, this work hypothesizes that:

**H1:** Ghanaian companies will make known their social and environmental practices to the public.

### **Theoretical Background**

A range of theories has been employed to explain why corporations may disclose information than is mandated. Some of these theories are: the stakeholder theory of the firm (Freeman, 1984), Legitimacy theory (Deegan, 2000), and CSR and Sustainability reporting (Ballou et al., 2006).

#### ***The Stakeholder Theory of the Firm***

The concept of the stakeholder hypothesis was introduced by Freeman in 1984, and has since been revised and modified by several different authors (Gilbert and Rache, 2008). According to the stakeholder concept, organizations have to satisfy all of their stakeholders in order to be successful in their business. In brief, stakeholders are those groups and individuals that can affect or are affected by the organization and its operations (Freeman, 1984). The stakeholders can be categorized into different groups which are all different and need to be dealt with through different strategies.

The stakeholder concept is very important in pointing to the significant relational components of organisations, and its functions. The central idea of an organisation's success would depend on how it is able to manage its relationships with key stakeholders, such as customers, employees, suppliers, communities, politicians, owners, and people that can affect its ability to reach its goals (Ihlen, 2008). It has become an important managerial job "to keep the support of all of these groups, balancing their interests, while making the organisation a place where stakeholder interests can be maximised over time" (Freeman and Philips, 2002, p. 333). Organizations cannot survive or prosper without their members behaving as good citizens by engaging in all sorts of positive organization-relevant behavior. Organizational citizenship behavior according to Organ (1988, p. 4) can be explained as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization." According to Grunig and Repper (1992, p. 125). "People are stakeholders because they are in a category affected by decisions of an organisation or if their decisions affect the organization" The stakeholders who are or become more aware and active can be described as publics. Therefore organizations must intensify their public relations which is the "management of communication between an organisation and its publics" (Grunig and Hunt, 1984, p. 6).

#### ***Legitimacy Theory***

Legitimacy is the understanding that specific behaviours are appropriate within a social system of norms, values and beliefs. Legitimacy depends on conformity to formal rules, to moral bases and accepted frames of reference, which attribute validity to institutions; thus authorities such as governments, professional bodies and trade associations can confer legitimacy (Scott, 2001). Organizations and social actors may prefer to conform to institutions, even when it goes against their beliefs and apparent interests, in order to obtain legitimacy in society and the benefits associated with this legitimacy (Powell, 1991). The legitimacy theory is built on the assumption that “organizations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is to say, they attempt to ensure that their activities are perceived by outside parties as being legitimate” (Deegan, 2000, p. 253).

The basic tenets of the legitimacy theory is that an organization’s success is dependent upon whether the society holds the perception that the organization is operating within a value system that is corresponding to the society’s own value system (O’Donovan, 2002). People believe that in communities where organizations operate, there is a social contract between these organizations and the individuals of the communities which pushes organizations to act in a socially responsible manner in their pursuit of achieving profits. It is therefore claimed that the legitimacy of an organization’s actions is judged and hence also accepted or disapproved by an external part (Ibid). CSR activities in general and sustainability reporting in particular can thus be seen as a way for companies to get their operations legitimized (Solomon and Lewis, 2002).

### ***CSR and Sustainability Reporting***

Sustainability reporting is arguably and tightly linked with CSR activities, since reporting information by organizations to the public has to do with their economic, operational, social, philanthropic and environmental objectives (Ballou et al, 2006). As a result, we can confidently argue that in order to gain an understanding of why companies are doing sustainability reporting, it is important to first understand the nature of CSR. Carroll (1979) defines CSR as: The social responsibility of business which includes the economic, legal, ethical, and unrestricted expectations that society has of organizations at a given point in time. He further states that, the notion that business has duties to society is firmly entrenched in the minds of citizens although in the past decades, there has been changes in the way people view the relationship between business and society, people should judge corporations not just on their economic success, but also on non-economic criteria such as ethical, legal and ecological considerations. Carroll (1979) proposed a four - part definition of CSR, suggesting that corporations have four responsibilities or ‘four faces’ to fulfill in order to be good corporate citizens namely economic, legal, ethical and philanthropic.

### **Methodology**

An explorative design process was used to collect and analyze data needed for the study. This involved analyzing the various social reports of a total of eight large manufacturing companies made up of six (6) multinational companies and two (2) big local companies operating in Ghana. The method of data gathering involved a content analysis of the various documents and social reports of the companies. The social reports were accessed through the web and the libraries of the various companies. This results from the fact that there is an incredible amount of business information in company documents. Content analysis has become a common method for simplifying and studying textual material in organizational science. The common element in all content analyses is the construction of a coding scheme that reduces a text into categories and extracts manageable data for analysis. This study follows Krippendorff (2004)’s assertion that content analysis is not just about words but is also concerned about where, when, and by whom the sampled texts were written and read.

### ***Source of texts and sampling***

The various social reports of the organizations served as text materials since they capture information about the economic, social and environmental issues and practices of the organizations under study. In terms of the sample of articles, the sampling decisions in content analysis are concerned with ensuring that the questions the investigator is interested in can be studied through the chosen sample (Krippendorff, 2004). In this case, a population of relevant texts of the problem of study was pre-screened for inclusion in the study. The concentration was basically on social and environmental issues reported in the various social reports of the eight manufacturing organizations as follows: Coca Cola Ghana; Nestle Ghana Limited; Ghana Breweries Limited; Cadbury Ghana Limited; Tropo Farms; Garments and Textiles and Euro Foods.

### ***Coding of text material***

Coding was done in a two-step process. In the first place, each report or article was manually coded by the researcher and the assistant researchers for disclosure practices, stakeholder participation and involvement, association between corporate practices and other organizational behavior phenomena, and type of social reports as shown in Table III. Each article in the overall sample was summarized on a spreadsheet with separate rows for each article, and columns for each coding category. In the second step, each article or report was quantitatively coded or assigned a nominal level data for the various categories or variables selected as shown in both Table II and III respectively. Coding of text referred also to the thematic analysis that offers the means to understand the motivation and the impediments to corporate social reporting practices in organizations. It is used to extract and analyze themes ingrained in the documents (Jones and Shoemaker, 1994).

### ***Data Analysis***

The interplay of qualitative and quantitative analysis is strength and a challenge in content analysis. While the data are primarily qualitative, reduction of these data are very necessary for quantitative analysis. Quantitative analysis in this study involved the assessment of frequencies of variable occurrence and cross-tabulations. Qualitative clustering (Miles and Huberman, 1994) involving reading across the sampled texts to identify themes aimed at uncovering evidence of social reporting and general CSR practices was employed. The data collected for this study were analyzed using statistical and analytical techniques. Statistical Package for the Social Sciences (SPSS) was used to analyze the data specifically providing descriptive analysis, and also the use of One-Sample Test to test the hypothesis.

### **Results**

The results obtained from the analysis are those that are discussed in the study. The results are treated according to the objectives of the study.

### ***Hypothesis Testing***

The hypothesis 1 predicted that Ghanaian companies will publish their social and environmental practices to their public. In order to test the hypothesis, a one-sample test was conducted (Table XI). The result indicated an acceptance and was significant at ( $df = 7$   $p < .05$ ). Therefore, at a significance level of (0.05), it can be claimed that Ghanaian companies will make known their social and environmental practices to their public. This is depicted in the Table X below.

**Table I:** One-Sample Test of Social Reporting

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**Test Value = 1**

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Regular report of operations to public	2.65	7	.033	.500	.053	.947

*Ghanaian companies and issues of social reporting*

All eight organizations have management plans that illustrate their operating procedures to the Environmental Protection Agency of Ghana, however, not all eight organizations under study do social reporting. Nonetheless, 50% of the organizations do regular reporting of their operations to the general public. These four organizations also follow the accepted accreditation principles, guidelines and standards of Global Reporting Initiative (GRI). In their reporting, they deal with different fields of social responsibility by dividing it into economic, social and environmental responsibilities.

*Accessibility of social reports to stakeholders and the general public*

Findings showed that only 37.5% out of the total eight organizations studied make their social reports accessible to their stakeholders and the public through their websites and bookshelves placed in the organizations. The remaining five organization representing 62.5% of the organizations only keep their social reporting materials in their bookshelves placed in the organization.

Similarly, only 37.5% post their social responsibility policies on the internet. Two of the organizations studied representing 25.0% do not post their CSR policies on the net, while 3 of the organizations representing 37.5% do not have CSR policies at all.

*CSR policies that support local training of employees*

This research tried to look at whether Ghanaian organizations have CSR policies which emphasize local training for their stakeholders, particularly with consumers and local employees. Findings show that 62.5% have instituted social responsibility policies that support the training of both local employees and consumers. These policies equally support consultations between the organizations and the communities involved. However, 37.5% of the total organizations studied do not have social responsibility policies that support local training of employees and consumers.

*Communicating Environmental issues with stakeholders*

Findings show that 62.5% do not have standard communication and complaints policies that support dialogue with the local community. However, only 3 organizations representing 37.5% of the total organizations studied have standard policy that supports dialogue with the local community.

*Social Reporting Governance*

The study tried to find out the intensity of reporting of the governance structure of the various organizations. Findings show that 50% of the organizations consider governance structure as 'very important'; 25% of the organizations consider their governance structure as 'important', and another 25% of the organizations studied do not have governance structure at all.

**Table II:** Scope and Nature of Organizational Social Reporting

Constituents of Reporting	Frequency of Ranking					Total
	VP	P	A	NG	NA	
Location of standard disclosure	5	-	-	3	-	8
Governance structure	4	2	-	-	2	8
Statement of mission, values and codes of conduct	1	4			2	8
Infrastructure and services for public benefit	4	2	2			8
Habitats protected or restored in the operational areas	4	4	-	-	-	8
Workforce by employment type, contract and region	3	2		1	2	8
Education, training, prevention, counseling, risk control of employees	4	4	-	-	-	8
Programmes for skills management of employees	2	4	1	1	-	8
Diversity of governance bodies and workforce		3	3	-	1	8
Facilitating dialogue among stakeholders	2	1	1	1	3	8
Education of consumers	1	2	-	1	4	8

**Key:** NA-Not Available; NG-Not Good; A-Average; P-Important; VP-Very Important

**Table III:** Scope and Nature of Organizational Social Reporting

Constituents of Reporting	Frequency of Ranking			Total
	Yes	No	Non-Existent	
Availability of formal CSR policy	5	3	-	8
Availability of CSR policy on website	3	2	3	8
CSR that supports consultation with community	5	-	3	8
CSR policy that supports local training	5		3	8
Environmental performance objectives	8	-	-	8
Standard operating procedures for handling complaints from the public	3	5	-	8
Regular reporting of operations to public	4	4	-	8
Policy for involving stakeholders	8	-	-	8
Policy for involving stakeholders published on the internet	3	4	1	8

## Discussions

The primary objective of this study is to investigate whether Ghanaian organizations do social reporting as a means of effective CSR. However, the study considers the pattern of social and environmental disclosures of Ghanaian companies as not very effective though findings of the study show that Ghanaian companies do social reporting. The overall results indicate that the industry do not have a strong support for social responsibility, but rather the various organizations do support social actions through involvement in some community based projects. For instance, though all the companies studied say they have a policy for involving their stakeholders in their operations, findings of this research show that policy for involving stakeholders published on the net is done by only three (3) companies, while four (4) of the organizations do not have this policy of involving stakeholders on the net, and one of the organization does not even have a

policy on stakeholder involvement. Also, only four out of the eight companies representing 50% do regular reporting of their operations to the general public.

Findings of this study also show a very low use of the internet as a conduit to publish all organizational activities. It is interesting to note that, only 37.5% of the total organizations studied have CSR policies and have posted their policies on the website for easy access to stakeholders. Two of the organizations have CSR policies but have not deemed it fit to post these policies on their websites. With regard to channels of reporting their social and environmental disclosures, 67.5% of the organizations use bookshelf reporting. This means the organizations expect their stakeholders to come to the premises of the organizations and source for information. However, it is difficult for people to have easy access to manufacturing organization particularly multinational organizations. This finding falls short of Rondinelli and Berry (2000) who proposed that openness and accountability are very essential to win the trust of employees and external stakeholders and that CSR means social and environmental performance whether successful or failed should be communicated to society in a transparent way.

The low percentage 37.5% of internet use for social reporting means there is very little usage of the web for transactional and stakeholder relations particularly in the area of information search and retrieval of organizational activities. More disturbing is the fact that today, there are manufacturing companies in Ghana who still rely on only paperback and bookshelves as means of disclosing their social and environmental issues. This is contrary to Esrock and Leichty, (1998)'s argument that the web has the potential to play a prominent role in CSR, particularly as a means to influence agenda.

The study also investigated the scope and nature of the process of social reporting by Ghanaian companies. Findings of the study also showed that companies in Ghana basically report on the following:

(1) Infrastructure and services for public benefit, (2) Education, training, prevention, counseling, risk control, (3) Habitats protected or restored, (4) Environmental performance objectives, and (5) Policy for involving stakeholders.

Activities to sustain CSR require that organizations manage their social and environmental issues with sensitivity and proactiveness. However, the study noted that Ghanaian organizations in the manufacturing sectors are not proactive to public issues by managing their social and environmental concerns with sensitivity. Findings in this study show that measures or standards operating procedures put in place to handle complaints from the public is dismal, only 37.5% of the organizations studied have standard procedures for handling stakeholders complaint on social and environmental issues affecting them. This finding demonstrates the lip service most multinational companies pay on corporate social responsibility. If the citizens who bear the brunt of negative manufacturing activities do not have the means to channel their grievances to the companies, then there is obvious lack of transparency in the activities of these companies towards the people they are producing these products for. Transparency on the activities of companies and how these activities are being managed can help improve key relationships with employees, consumers and other stakeholders. CSR encourages companies to look at a wider range of stakeholder interests, which can broaden understanding of the potential risks and opportunities for the business while offering wider social or environmental gains. Organizations that are actually interested in the welfare of its stakeholders must establish the balance between stakeholder goals and company objectives, which is needed to sustain CSR.

## Conclusion and recommendation

Based on the findings of this work, the potential for Ghanaian organizations particularly the subsidiaries of the multinational companies' position on corporate citizenship is vast, and these organizations need to expand or intensify their social and environmental issues through proper reporting mechanisms that are transparent and accessible to all stakeholders. It is important that activities of these organizations or companies are well connected to both stakeholder interests and to the normal operations of the individual organizations. The current global challenges of transparency, stakeholder expectations, accountability, trust and reputation require a strategic approach endorsed at the highest levels of the organization and integrated and aligned throughout the business operation, and this can become feasible through the effective monitoring by the Government.

It is imperative that governments in Africa see multinational organizations operate and act in a good citizenship manner as they would behave in their home countries and this is possible through effective regulatory processes.

Therefore, governments in Africa have a crucial role to play in order to enable companies contribute to sustainable development. One very important way is working with the companies to understand and comply with host country regulatory framework and how this contributes to companies CSR and competitive advantage. Multinational organizations must play an influential role in the manufacturing sectors of host countries by ensuring practical outcome based approaches to encourage wealth creation while tackling environmental challenges and inequalities and reducing poverty. This will include dispensing best practices, creating awareness and intensifying the impact of existing initiatives in which responsible CSR can thrive. Good organizational citizenship behaviour will minimize the negative consequences of business activities and decisions on stakeholders including, employees, customers, communities, ecosystems, shareholders and suppliers.

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## **Operations and Logistic Supply Chain Management**

## **An investigation of the level of implementation of the ISO 9000 quality management system in Africa**

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*African manufacturing firms face a unique problem in both local and foreign markets. Nowadays, not having ISO9000 certification constitutes a barrier to entry into the global market. Customers demand high quality products and foreign manufacturing companies located in Africa require suppliers to provide them with good quality parts and components. Adopting quality management systems, and in particular ISO 9000 certification offers a potential solution to African firms. In this paper, Data on ISO 9000 take up in the world are analyzed. Findings clearly show that Africa is well behind other regions of the world. In fact between 2001 and 2008, the number of ISO 9000 certificates in Africa was very low and by 2008 it only represented a mere 0.87%. South African, Egyptian and Tunisian firms hold a massive 77% of the total number of certificates. Moreover, only nine countries account for 94% of the certifications. Reasons for these results are investigated and suggestions for enhancing ISO 9000 certification in Africa are discussed.*

### **Introduction**

Over the last two decades, African countries have embarked on an economic adjustment process to reform and modernize their economies. The main goal is to move away from being exporters of raw resources to adding value in Africa and manufacture and export finished products. However, a crucial element in this strategy of export-led economic growth is the quality of the products being manufactured. Competition is fierce in the global market and low quality products have no chance of making it passed the factory. These days, competing on low cost alone is not possible and producing a high product quality is essential. In fact, in his paper Mersha (2000) states that given the increased liberalization of international trade brought about by globalization, African firms must be more competitive both in price and quality to succeed even in their domestic markets. Quality, which used to be a competitive advantage to companies, has now become a requirement for survival in the global economy. Globalization has brought increased competitive pressures on businesses all over the world, not just in developed economies. Dale (2003) stresses the importance of quality in that it increases productivity, leads to better performance in the marketplace and improves overall business performance. In this paper I will mainly focus ISO 9000 certification, a quality management systems which when implemented guarantee that companies use quality processes and methods to produce quality products and services. ISO 9000 certification is widespread among organizations in the industrialized world. ISO 9000 standards have become a de facto market requirement for any company wanting to compete in the global market (Lee and Palmer, 1999; Beatie and Sohal, 1999; Ismail, M.Y. et al., 1999; Djerdjouri et al., 2011). In fact major international buyers do now require their suppliers to comply with international quality standards. The trend resulted in a quality awareness of companies in the developing countries. This led many of these organizations to seek ISO 9000 certification in droves (Gupta, A., 2000; Acharya and Ray, 2000; A. Bestkese and U. Cebeci, 2001). Also, Clougherty and Grajek (2006) found that for developing nations, ISO 9000 adoption

and diffusion in a country enhances both foreign direct investments as well as exports. However, quality does not come without imbedding quality programs within the company and all the production processes. Moreover, Yeung and Mok (2005) report that the World Trade Organization's (WTO) agreement on Technical Barriers to Trade (TBT) encourages the use of ISO 9000 and ISO 14000 as a means of preventing unnecessary barriers to international trade. The main objective of this research paper is to examine the extent to which quality management systems (ISO 9000) have been adopted and implemented in Africa and to give an overview of the status of the quality movement at the present time.

### **Overview of the ISO 9000 standards and the certification process**

ISO 9000 is a widely recognized series of standards, introduced by the International Organization for Standardization (ISO) in 1987 that outline best practices to be adopted when implementing quality systems. It provides a framework whereby a business can assess where it is and where it wants to be in terms of quality, and involves detailed documentation of all processes and procedures. ISO standards are acceptable worldwide thus assuring traders that the company having the ISO certification has met certain criteria, like quality. They provide details on conformance assessment mechanisms and outline good management practices. This is very important in facilitating transactions between businesses, regardless of where those businesses are.

### **ISO 9000 standards development**

After the Japanese success in implementing quality management systems and the outstanding impact it had on the progress of the Japanese industry in general and the competitive advantage it gave its automobile and electronics industries in particular, quality management became the "buzzword" in the 1980s. Many studies and research papers were devoted to the subject. In order to raise awareness of quality in Europe and North America and make quality management more acceptable and accessible to industry, quality standards were developed and quality and business excellence awards were established. In the early 1980, a technical committee was established by the International Standards organization (ISO) comprising of experts from businesses and other organizations. The committee was charged to develop the ISO 9000 standards for quality assurance. These standards were based on the British Standards Institution (BSI) BS5750 series of quality assurance system standards. ISO 9000 norms are a set of international standards and guidelines that serve as the basis for establishing quality management systems necessary to meet specific requirements at manufacturing and service firms (ISO, 2001). As such, ISO 9000 certification are granted to quality processes not to products or services. The first ISO 9000 certificates, attesting that firms were adhering to standards, were issued in 1987 in Europe (Guler et al., 2002). The ISO 9000 were revised in 1994 and 2000. The first revision emphasized compliance while the second revision (ISO 9000:2000) stresses both compliance and continuous improvement (Mersha , 2007). The ISO 9001:2000 standards integrate key clauses of previous standards into four new categories: management responsibility, resource management, process management, and measurement, analysis and improvement. In fact, all companies were required to re-register under the new standards (Mersha, 2007). ISO 9000 certification requires detailed review and documentation of the organization's production processes, in accordance with the quality system requirements specified by ISO. The requirements span areas such as contract review, design control, document and data control, purchasing, production, installation, servicing, and inspection (Guler, 2002). Many organizations decide to have their management systems independently audited and certified as conforming to the standards by registrars. Certification is not a requirement of the standards themselves, it is voluntary (ISO, 2008). The ISO 9000 certification process consists of the following main steps (Guler, 2000; Grajeck, 2004) : a)- The

organization prepares the documentation on its quality policy statement and on the purpose, scope, content, and procedure for each activity in a quality manual; b)- An accredited third-party registrar then audits the documentation and implementation. - Registrars include government laboratories, private testing organizations, firms that were early adopters of ISO, industry trade groups, and accounting firms. Registrars, in turn, are qualified to conduct audits and award certificates by national accrediting agencies, which typically are the national standards body in each country; c)- Organizations that demonstrate conformity to the standards receive a certificate and can publicize in promotions or advertisements that their systems and organizational processes are "ISO 9000-certified"; d)- The certificate is typically awarded for a period of three years. Regular audits are conducted after awarding a certificate to make sure that the firm is in compliance with the standards; e)- Organizations must engage in a continuous improvement effort to remain certified; f)- The certification process or registration takes between nine months and two years; g)-The costs of this process include application and document review, the registrar's visits and assessments, issuing the registration and writing the report, and any follow-up visits.

### **Diffusion of ISO 9000 certification**

From Europe where they originated, the ISO 9000 standards first diffused among other countries in Europe and North America and then to developing countries all over the world. By 1993, 27000 ISO 9000 certificates had been issued mainly in Western Europe and North America, and by 2009 this number went up to 1064785 certificates awarded in 178 countries, a colossal 3844% increase. In recent years, ISO 9000 certification has diffused to Asia, South and Central America and Africa. In 1991, Europe's share of the total world ISO 9000 certificates was 81% while Asia's (Far East region) share was a mere 3.4%. In 2009, the European share went down to 47% while Asia's (Far East region) went up to 37.4%. Also, the Africa/West Asia region and the Central/South American region saw their share go up from 2.7% and 0.3% respectively to 7.3% and 3.4 % in the same period (ISO, 2009). In 2009, China had 257076 ISO 9000 certificates, the top country in the world, followed by Italy with 130066 certificates (ISO, 2009). In addition, in the early years, ISO 9000 certificates were issued mostly to manufacturing companies, however, overtime more and more organizations in other areas such as construction, information technology, education, and healthcare were seeking and obtaining ISO 9000 certifications.

### **Benefits of ISO 9000 certification**

Many studies have investigated the ISO 9000 certification experience of organizations in different countries and for different industries (Djerdjouri, 2011; Tanok et al., 2008; Okay & al., 2010; Magd, 2006; Lee, 1999; Naveh et al., 2005; Aggelogiannopoulos, 2007; Urbonavicius, 2005; Vloeberghs et al., 1996; Yeung et al. 2005; Turk, 2006; Walker, 1998). In all these studies and many others, benefits from ISO 9000 certification were reported. These benefits include: less waste and elimination of procedural problems; improved product design and quality: products and services consistently meet customer requirements; customer satisfaction and improved public image; maintenance of or increase in market share; improved communications and morale in the organization; increased confidence in the production system, and less time required to train new employees. Moreover, ISO 900 certification has a significant positive impact on international trade (Grajeck, 2004). Implementation resulted in better communication between employees, cost savings, reduced paper work, greater competitive advantage, and more organized design and output (Hudson & al., 2003). A.M. Turk (2006) found that companies in the Turkish construction industry experienced an increase market share and a reduction in operating costs. Guker & al. (2002) reported that ISO certification helps companies improve their information gathering and analysis, their overall quality levels as well as the supplier and customer relations. In their study

of Indian industries, Acharya and Ray (2000) found that ISO 9000 improved understanding of process and responsibilities, improved communication, management control, relationship with other functions and product quality. In the Mexican maquiladora industry, benefits of certification included consistency in procedures and practices, reduced operating costs, fewer supplier quality assurance audits, access to new markets, integrity of delivery schedules and name recognition for the company (Dowlatshahia and Urias, 2004). In China, manufacturing companies reported greater cost efficiency, reduced liabilities, less wastage, elimination of procedural problems, products and services consistently meeting customer requirements, improved public image, improved communications, and increased confidence in the production system (Yeung & al. 2005). In Belgium, quality managers reported that employees were better satisfied with clearer job descriptions and defined responsibilities; processes errors and defects were reduced, order processing, reliability improved and costs decreased (Vloeberghs & al., 1996). Also Urbonavicius (2005) reported that small and medium companies from new EU member countries that received certification saw their relative performance improve substantially, compared to their uncertified peers. Implementing ISO 9000 was shown to lead to improvements in operating performance, thus giving the firm a competitive advantage (Naveh and Marcus, 2005). In their examination of ISO registered companies in New Zealand, Lee and Palmer (1999) found that ISO 9000 implementation is perceived to bring about enhanced management leadership, improved training and communication, better customer focus and better relationship with suppliers. In Saudi Arabia, implementation of ISO standards improved the efficiency of the quality system and the documentation procedures and it increased quality awareness in the firms (Magd, 2006). Finally, Okay and Semiz (2010) reported that for small and medium sized firms in the Turkish textile industry, ISO 9000 implementation decreased business costs, increased productivity and profitability as well as capacity usage and the quality prestige of the firms.

### **Challenges of ISO 9000 certification**

In general ISO implementation is a rather expensive, time and resources consuming project. Many challenges and difficulties have been reported over the years by certified companies. Hudsohn & al. (2003) report that acquiring ISO 9000 certification can involve a process which typically takes between 9 and 30 months and involves direct financial costs that could be substantial for many firms. For ISO 9000 certification in the Turkish construction industry, firms reported that the registration process was too long, certification increased expenses, and the necessity to restructure the personnel was problematic (Turk 2006). In China, high certification costs represented the main challenge for manufacturing firms seeking certification (Yeung and Mok, 2005). In Belgium, firms complained that ISO 9000 standards tend to bring about an increase in bureaucracy and hierarchy. Moreover, they found that the biggest drawback is the manual which sets out rules and processes for assuring quality within an organization. It is considered too theoretical and complex (Vloeberghs and Bellens, 1996). In New Zealand, the survey found that ISO 9000 registered firms had difficulties relating ISO principles to their work and that management found it difficult to monitor employees' day-to-day adherence to ISO procedures (Lee and Palmer, 1999).

Magd (2006) found that in Saudi Arabia, manufacturing firms reported that the main problem with certification was the high costs associated with the audits. Mersha (2007) mentions the findings of the case studies done in Kenya, Mozambique, Nigeria, South Africa and Uganda on the issue of quality management systems where it was reported that these countries faced many challenges that include limited financial and human capacity, inadequate infrastructure and institutional capabilities. In a survey of small and medium-sized textile firms in Turkey, 23 % of the firms stated that the main challenge of ISO certifications was the increase in bureaucracy and that the documentation was worth reviewing (Okay and Semiz, 2010). Lastly, in his paper Guler (2000) mentioned that the effectiveness of compliance has been questioned by many studies

which showed that certification did not result in buyers perceiving that products were of higher quality or that there was improved customer satisfaction.

### ISO 9000 take up in Africa

As mentioned earlier, the number of ISO 9000 certificates awarded in the world went from 27000 certificates in 1993 to 1064785 in 2009. A massive increase of 3844%. Table 1 below shows the trend from 2001 to 2008. Except for 2003, every year saw an increase in the number of registered ISO 9000 organizations in the world. The percentage increase varies between 3% and 33%. The 11% decline recorded in 2003 is mainly due to the fact that December 2003 was the deadline for transition from the ISO 9000: 1994 to ISO 9000: 2000 standards. And many companies could not meet the deadline, so they could not be counted as certified yet. Also, some firms which reported the number of certified sites before changed to one certificate for all sites. From 2001 to 2009, there was a 108% increase in the number of ISO 9000 certificates issued to companies and organizations in the world

**Table 1.** Total ISO 9000 certificates and take up growth in the world

	2001	2002	2003	2004	2005	2006	2007	2008
World Total	510349	561767	497919	660132	773867	896929	951486	982832
World Growth	--	51418	<b>-63848</b>	162213	113735	123062	54557	31346
% Growth	--	+ 10%	<b>-11 %</b>	+33%	+17%	+16%	+6%	+3%
# of countries	98	134	149	154	161	170	175	176

**Source:** The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates – 2003-2008

In 1991, Europe's share of the total world ISO 9000 certificates was 81% while Asia's (Far East region) share was a mere 3.4%. In 2009, the European share went down to 46.3% while Asia's (Far East region) went up to 36.3%. Table 2 below shows the share of each region in the world of the total number of certifications between 2001 and 2008. Africa saw a very slight increase of 0.1% from 2001 to 2008. While the African share did not increase over the 8 year period, Central and South America's share went from 2.8% in 2001 to 4.1% in 2009 and the Far East region's share grew from 24.8% to 36.3%. Australia/New Zealand's, Europe's and North America's share all decreased in the same period.

**Table 2.** Share of ISO 9000 take up by region in percent (%)

	2001	2002	2003	2004	2005	2006	2007	2008
Africa*	0.77%	0.81%	0.87%	0.74%	0.87%	0.83%	0.78%	0.87%
Australia/New Zealand	5.6%	5.2%	4.6%	3%	2.5%	2.2%	0.9%	1%
Central & South America	2.8%	2.4%	1.9%	2.6%	2.9%	3.3%	4.1%	4.1%
Europe	52.8%	52.1%	48.7%	48.6%	48.7%	46.2%	45.3%	46.3%
Far East	24.8%	26.4%	32.7%	33.5%	31.9%	33.5%	36.3%	36.3%
North America	10%	9.6%	8.1%	7.6%	7.7%	6.8%	5%	4.9%

\*Africa percentages were calculated by the author using ISO survey numbers for individual African countries (*Appendix 1*)

Table 3 below shows the trend of ISO 9000 certification from 2001 to 2008 in Africa. Results indicate that the number of certificates grew from 3909 in 2001 to a total of 8550 in 2008, a strong increase of 119%. Except for 2003, there were increases ranging from 0.16% to 39%. Also, in 2008 there were certified companies in 42 African countries compared to 32 countries in 2001. In the African continent there are hundreds of thousands of organizations in all the sectors of the economy, such as manufacturing, oil and other mineral resources, tourism, services. However, only 8550 had ISO 9000 certifications at the end of 2008. Moreover, just 0.87% of the world ISO 9000 certificates were issued in Africa, the lowest take up of any region.

**Table 3.** Total ISO 9000 certificates and take up growth in Africa

	2001	2002	2003	2004	2005	2006	2007	2008
Africa Total	3909	4536	4352	4876	6771	7447	7459	8550
Africa Growth	--	627	<b>(-184)</b>	524	1895	676	12	1091
% Growth	--	+16%	<b>-4.05%</b>	+12%	+39%	+10%	+0.16%	+15%
# of countries	32	32	26	31	36	37	40	42

Although results in table 3 show a positive trend of ISO 9000 certification in Africa with a big increase in the number of certificates as well as an increase in the number of countries between 2001 and 2008, the reality, as shown in tables 4 and table 5 below, is more sober. Data for ISO 9000 certifications were obtained for each country between 2001 and 2008 (*See Table 6 in appendix 1*) and the results in table 4 below represent only countries which had 100 or more certificates by the end of 2008.

**Table 4.** ISO 9000 take up in the main African countries (*in number of certificates*)

Country \ Year	2001	2002	2003	2004	2005	2006	2007	2008
Total Africa	3909	4536	4352	4876	6771	7447	7459	8550
Algeria	12	39	45	126	185	103	171	159
Egypt	546	642	754	810	1326	1928	1535	1944
Kenya	112	46	41	158	169	183	204	257
Mauritius	175	210	122	212	202	240	259	266
Morocco	158	164	78	296	403	457	504	405
Nigeria	22	85	83	99	101	132	149	163
South Africa	2263	2625	2537	2486	3119	3256	3283	3792
Tunisia	302	376	403	123	380	585	690	848
Zimbabwe	134	91	19	109	129	128	136	157
Rest of Africa	185	258	185	457	757	435	528	559

Table 4 above shows that in 2008, out a total of 8550 certificates in Africa, 3792 were issued in South Africa, 1999 certificates in Egypt and 848 certificates in Tunisia, for a total of 6639 for the three countries. In fact, if we consider all the countries with 100 or more certified companies in 2008, that will represent only 9 countries out of a total of 42. That is a truly dismal record for a large continent like Africa.



**Table 5.** Share of ISO 9000 take up by the main African countries (*in percent (%)*)

Country \ Year	2001	2002	2003	2004	2005	2006	2007	2008
Algeria	0.31%	0.86%	1.03%	2.58%	2.73%	1.38%	2.29%	1.86%
Egypt	13.97%	14.15%	17.33%	16.61%	19.58%	25.89%	20.58%	22.74%
Kenya	2.86%	1.01%	0.94%	3.24%	2.50%	2.46%	2.73%	3.01%
Mauritius	4.48%	4.63%	2.80%	4.35%	2.98%	3.22%	3.47%	3.11%
Morocco	4.04%	3.62%	1.79%	6.07%	5.95%	6.14%	6.77%	4.74%
Nigeria	0.56%	1.87%	1.91%	2.03%	1.49%	1.77%	1.99%	1.91%
South Africa	57.89%	57.87%	58.29%	50.98%	46.06%	43.72%	44.01%	44.35%
Tunisia	7.73%	8.29%	9.26%	2.52%	5.61%	7.86%	9.25%	9.92%
Zimbabwe	3.43%	2.00%	0.44%	2.23%	1.90%	1.72%	1.82%	1.84%
Rest of Africa	4.73%	5.69%	4.25%	9.37%	11.18%	5.84%	7.08%	6.54%

In terms of share, table 5 above shows that in 2008, the nine listed countries accounted for 93.46% of all ISO 9000 certificates awarded in Africa. Moreover, South Africa itself had 44.35% of all certificates. And the three countries of South Africa, Egypt and Tunisia held 77% of the total number of African ISO 9000 registered firms.

#### **Main obstacles for certification in Africa**

These results lead to the obvious question as to why does Africa have a relatively low number of ISO 9000 certified companies compared to the other regions of the world and more specifically compared to small regions like Australia/New Zealand and Central and South America. The figures also suggest that there are special reasons that have inhibited take up of ISO 9000 standards. Many studies have attempted to identify the reasons for this state of affairs in developing countries. Managers' lack of understanding of the nature and purpose of ISO 9000 standards, inadequate infrastructure, lack of national accreditation authorities, a shortage of effective quality consultants and qualified auditors, and a lack of technical education opportunities in quality management were cited as the main inhibitors of ISO 9000 take up in developing countries (Tannock and Sid Ahmed, 2008). Mersha (2007) citing the findings of a study of five major African countries (South Africa, Mozambique, Uganda, Nigeria, Kenya), has summarized the main obstacles encountered by African firms into five categories: - a) lack of quality awareness by industry and government leaders; b) limited financial resources of African firms given the significantly high cost of certification; c) shortage of well trained quality professionals and quality management staff; d) limited technical support in terms of consulting, training and other support services in quality; e) inadequate infrastructure such as laboratories and equipment to facilitate quality management, conformance evaluation and testing. Moreover, Mersha (2007) mentions the fact that Africa and developing countries in general are passive implementers of trade standards negotiated by developed countries, is an additional impediment to African firms because the standards are generally more favorable to countries which participated in developing them in the first place. Also while very popular in business, ISO 9000 standards have many critics and some argue that there is no clear evidence of their effectiveness (Singh, 2008). Yeung and Mok (2005) go even further in mentioning that there is a school of thought that believes ISO standards are actually used by developed countries as effective non-tariff barriers to keep out exports from developing countries.

#### **Enhancing ISO 9000 certification in Africa**

Mersha (2007) proposes to create quality awareness among business and government leaders, improve investment climate, provide quality assistance to export-oriented firms, build adequate institutional capacity, strengthen public-private partnership, share best practices, and launch a quality award initiative.

Similarly, Gosen et al. (2005) mention that governments in developing countries can help by being more efficient themselves, providing financial and technological support, and making industrial development an important priority. Obtaining and maintaining ISO 9000 certification is a strenuous and costly process, that requires total management and employee's commitment. However, commitment within a firm will not be possible if a wider quality awareness and commitment to quality is not present among the country business leaders and government policy makers. As a result, government must promote quality through special programs and as mentioned by Mersha (2007) through the creation of a quality award program that will promote business and quality excellence among firms. Unfortunately, Alonso-Almeida (2011) reports that Africa is again far behind, since only four countries so far have instituted quality awards namely; Egypt (1997), South Africa (1997), Kenya (1999) and Mauritania (2001). Quality and business excellence awards programs will lead to the creation of a very positive image of quality management and quality management systems among private and public companies in the country. Another crucial proposal is the financial support since the main impediment for obtaining certification cited by firms in Africa and other developing countries relates to the high costs involved. To support firms, governments should provide grants for quality programs and in return these firms commit to the pursuit of quality and to having a more customer focus. In addition, technical support services must be provided to firms seeking certification. This should involve free consulting and training in quality management systems implementation and quality management. Moreover, governments should promote the creation of local or regional highly competent certification agencies that are more aware of and sensitive to the African business and social environment. At a macro level, African governments should heavily invest in the primary and secondary education in order to improve the overall education level of the workforce; invest in infrastructure and develop a stable local supply base. In addition, governments should limit their tight control of the economy and promote economic development via public and private partnerships.

## **Discussion and Conclusion**

Using data collected in the 2003 and 2008 ISO survey cycles, I have examined the status and trend of ISO 9000 certification take up in Africa. The results clearly show that Africa is well behind all the other regions. In fact a closer look at the data showed that 77% of the ISO 9000 certificates in Africa are held by companies in three countries, namely, South Africa, Egypt and Tunisia. Moreover, only nine countries account for 93.5 % of all the ISO certifications. Hudson and Jones (2003) found that the rate of diffusion of ISO 9000 is slower in developing countries and significantly slower in countries with low income per capita. Moreover, Gutler et al. (2002) showed that the size of the country and the level of economic development have a significant effect on the number of certificates taken up in the country. Results in Africa seem to confirm this finding, since the nine countries with 93.5% of all the certifications (Algeria, Egypt, Kenya, Mauritius, Morocco, Nigeria, South Africa, Tunisia and Zimbabwe) have the most developed economies in Africa and they are in the higher GDP per capita bracket. Many reasons were mentioned by researchers for the low ISO 9000 certifications take up by African firms. The main ones being the highly prohibitive costs of certification, the lack of quality awareness by business and government leaders, the inadequate infrastructure, the shortage of qualified technicians and quality professionals and the limited support services. Proposals to enhance quality management and ISO 9000 certification in Africa and other developing countries were made by many researchers. The most recurring ones include investing in infrastructure, providing financial

support, providing consulting and training, and promoting private entrepreneurship. Guler et al. (2002) study revealed that when multinational companies locate factories in a foreign country they prefer suppliers which hold ISO 9000 certification. In fact more than half of the firms surveyed in Europe and America report that they require their suppliers to be ISO 900 certified (Guler et al., 2000). Grajeck (2004) confirms that ISO 9000 certified firms tend to trade with each other more than with uncertified firms. Also empirical tests found that ISO 9000 adoptions benefit bilateral exports and that ISO 9000 standards have a more pronounced positive impact on trade among countries with a high number of ISO 9000 certified companies (Grajeck, 2004). In light of these facts and despite all the challenges, it is highly desirable that African firms take ISO 9000 certification more seriously and that African governments help these firms achieve certification. The main reason is that an increase in ISO 9000 take up in Africa will definitely improve the existing position of African firms in the national as well as the international markets. And more importantly, export-oriented manufacturers have no other alternative but to adopt international quality standards as soon as possible in order to improve their competitiveness in the global economy.

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### Appendix 1

**Table 6.** ISO 9000 take up in African countries (*in number of ISO 9000 certificates*)

Country \ Year	2001	2002	2003	2004	2005	2006	2007	2008
Algeria	12	39	45	126	185	103	171	159
Angola	0	5	1	2	3	1	10	8
Benin	0	2	0	1	0	1	2	3
Bostwana	5	6	11	8	22	35	32	37
Burkina Faso	0	0	0	0	2	2	2	4
Cameroon	8	7	2	9	13	10	7	12
Cape Verde	0	0	0	0	0	0	0	1
Central African Republic	0	2	0	212	394	1	0	1
Chad	2	2	0	2	0	0	0	0
Congo Dem. Repub. (of)	1	0	0	0	0	0	0	0
Congo Republic	2	0	0	0	0	0	1	2
Cote d'Ivoire	10	25	14	0	35	46	46	32
Egypt	546	642	754	810	1326	1928	1535	1944
Equatorial Guinea	0	0	0	0	0	0	1	0
Eritrea	0	0	0	0	0	1	1	1
Ethiopia	0	1	0	2	3	3	20	22
Gabon	6	5	2	3	3	3	6	5

Ghana	6	5	10	17	11	12	12	14
Guinea	3	0	0	0	1	0	1	1
Guinea Bissau	0	0	0	0	0	0	3	0
Kenya	112	46	41	158	169	183	204	257
Lesotho	0	0	0	0	0	0	0	1
Liberia	0	0	0	0	1	0	0	1
Libya	4	7	5	6	35	46	55	26
Madagascar	1	0	0	3	6	23	23	27
Malawi	1	2	6	2	8	2	6	9
Mali	5	0	0	0	2	2	2	4
Mauritania	0	0	0	0	1	0	1	3
Mauritus	175	210	122	212	202	240	259	266
Morocco	158	164	78	296	403	457	504	405
Mozambique	4	7	7	9	8	10	8	14
Namibia	24	17	15	23	22	18	23	21
Niger	0	3	0	0	0	1	1	34
Nigeria	22	85	83	99	101	132	149	163
Rwanda	0	0	0	1	1	1	1	1
Senegal	8	15	10	29	40	42	56	56
Seychelles	6	9	4	9	8	9	13	16
Sierra Leone	1	0	0	0	0	4	0	0
Somalia	0	1	0	0	0	0	0	0
South Africa	2263	2625	2537	2486	3119	3256	3283	3792
Sudan	3	10	26	37	32	55	82	77
Swaziland	11	29	20	13	18	29	40	48
Tanzania	4	5	2	5	20	14	12	12
Togo	0	0	0	0	2	2	3	3
Tunisia	302	376	403	123	380	585	690	848
Uganda	60	72	120	47	45	45	42	44
Zambia	10	21	15	17	21	17	16	19

**Source:** The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates – 2003 and 2008

## **Marketing Management and Strategy**

## **Service quality in the banking sector in Ghana**

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*Service quality in the delivery of banking services is considered as giving firms' a competitive edge and increasingly it is becoming a critical success factor. This research investigates the role that service quality plays in the Ghanaian banking sector and its impact on service delivery. A sample of 400 customers was taken from a combination of four leading indigenous and foreign banks and questionnaires administered to them based on the SERVQUAL dimensions. Using the William L. Boyd, Myron Leonard, and Charles White's Standard Instrument for weighting of rating of service quality, results indicated that gaps exist between customers' expectations and perceptions of service delivery in all the banks even though the banks performed better on the tangibility dimension. Despite this observation, the banks retained their customers. The study concluded that service quality is necessary but not a sufficient condition to maintain customers.*

### **INTRODUCTION**

The banking sector in developing countries for the last two decades (1990 – 2011) has been the subject of several regulatory changes resulting in increased competition among the banks (Sureshchander et al., 2003). Indeed, prior to the 1980s, the banking system in developing countries was largely dominated by state owned banks (Yavas et al., 1997). Developing countries face challenging environments. Some of these challenges have broadly been enumerated: lack of the necessary infrastructure (Njanike, 2008); extreme poverty especially in Sub – Saharan Africa (Nkamnebe and Idemobi, 2011); high debts (Leow, 1999); prevalence of seller's market conditions (Yavas, et al., 1997); growing services sector (Malhotra 2004) and globalization with its attendant affect on local businesses among others. Relating specifically to the banking system the challenges include: high amount of bad debts and low profits and intense competition (Sureschander, 2002).

Some of the changes in consumer banking that have taken place in developing economies in the past decades including, inter alia, the economic crisis in the 1990s; credit crunch that started in late 2000s; cross border bank mergers; the change in banks operating hours; the introduction of telephone banking; rapid growth of internet banking; and the growth of spending power of the customers. (Munusamy et. al (2010) and banking (Ross 1999) branch networks being enabled by Automated Teller Machines (ATMs). In the decade following the post-liberalization reforms, the banking system in many developing countries responded favourably by absorbing the impact of these reforms (Saviani, 2000). Sureshchander et al., (2003), further postulate that maturing markets and global competition have compelled bankers in developing countries to consider the trade-off between attracting new customers and keeping old ones. As a result, the focus of marketing has shifted to managing relationships with customers. Njanike (2008) however indicated that most developing economies lack the necessary Information Communication Technology (ICT) infrastructure resulting in low service quality and therefore depressing the rate of return on investments in the banking sector.

The liberalization of economies of developing countries have also resulted in the movement of foreign banks to developing countries which according to Njanike (2008) could be attributed to push factors like low profits and regulatory restrictions in the home country. The stiff competition in the banking industry is further deepened by the entry of private sector banks (Sureshchander et al, 2002). Despite the stiff competition that private and foreign banks provide, Panigraphy (2000) reports that they have also played a key role in providing greater benefits and new services options to customers. These banks generally have state-of-the art facilities and better service delivery systems and have therefore posed a real threat to public sector organization including government owned banks (Nerurkar, 2000). Such organizations have therefore been compelled to adopt a more technology market-oriented approach to improve their service delivery and aid in winning and retaining customers. As indicated by Rawani and Gupta (2000), innovative technology – based services such as ATM, electronic transfer, smart cards, Internet banking are no longer new concepts to customers in developing countries. Banker (1998) however conceded that the diffusion of technology in developing economics has relatively been slow especially for public sector banks and raises the possible implication of how they are faring with regards to service delivery and quality issues. Service delivery and service quality within developing countries context has not received enough attention in academic literature.

The objective of this paper is to investigate the role of service quality amongst the traditional banking providers and the new entrants in the light of the current diffusion of technology and the unprecedented competition in the industry. The study seeks to understand how service quality issues are being taken into account by both the incumbents and the new players in the banking sector in Ghana in their quest to create a competitive advantage.

## **SERVICE DELIVERY IN DEVELOPING COUNTRIES CONTEXT – LITERATURE REVIEW**

Various studies on service delivery within the banking industry in challenging environments as reviewed have focused on marketing themes spanning bank service quality, relationship marketing and customer satisfaction. We sum up the review of the literature by focusing on the findings of key studies in different resource-challenged environments. According to Sureshchander et al., (2003) the research literature on service quality contains several models by different researchers across the globe. Gerpott et al (2001) on the other hand indicated that in order to increase the customer confidence in the capabilities of a service provider, customer satisfaction and customer loyalty are the key factors considered in the existing literature. Further, the marketing literature has recognized the importance of developing and maintaining enduring relationships with customers of service businesses (Henning-Thurau et al., 2002) and as cited in So and Speece (2000), Perrien et al (1992) suggested that strong competitive pressure has forced financial institutions to revise their marketing strategies and to stress long-lasting relationships with customers. Indeed, Joseph and Stone (2003) indicated that the importance of service delivery and its impact on improving satisfaction and retention of customers cannot be overstated.

Mobolaji (2009) studied banking development, human capital and economic growth in Sub-Saharan Africa (resource challenged environment) and posited that despite the myriads of hope, growth and performance of Africa has been very poor. He concluded that human capital impacts positively on growth. Since people play a key role in service delivery human capital development should positively impact service delivery. He however indicated that due to poor development of institutions in the region, poor infrastructure facilities, high transaction costs, weak property rights, and inefficient legal systems, financial development has not had much impact on economic growth. These findings provide empirical evidence that the resource –challenged environments



have stalled service delivery in these countries. Kaur et al (2009) in their study of the internal market orientation in Indian banking stated that to survive in a highly competitive environment would require organizations to deliver services that might yield satisfied and loyal customers. They argued that in order gain excellent service delivery, an organization need an effective internal system aimed to serve the external customers. They therefore concluded that managements must empower employees, involve them in decision making, understand their needs and give them more authority and responsibility thereby allowing them to become innovative in delivering the service. This study therefore focuses on the people aspect of service delivery.

Mouawad (2009) studied the development of Islamic Finance and the motives that catalyzed its expansion worldwide with specific reference to the Egyptian economy. The study attributed the showdown of Islamic financial institutions to political and economic threats from the government. The paper therefore concluded that political and economic dilemma can either encourage or restrain a global phenomenon like Islamic Banking. Whilst this study relates specifically to Islamic Banking, it highlights the influence of environmental factors, namely economic, political and social variables on the success or otherwise of financial institutions in resource-challenged environments. Hinson et al (2011) discovered that International bank brands fared better than local bank brands in Ghana with regards to specific dimensions of service brand quality and attributed this disparity in performance to factors such as the presence of service standards and exposure to well –structured training programmes. They argument therefore is that geographical context per se does not guarantee success of a bank, but adherence to best practices globally is what guarantees success. The findings hare are revealing as it debunks the myth that geographical location of a financial institutions is a determinant of its success. Thus, foreign banks operating in resource challenged environments which have adopted best practices in the world appear to be doing better as compared to their local counterparts.

Thuy and Hau (2010) studied the concept of service personal values and its ability to predict customer satisfaction and loyalty towards banking services in Vietnam. The study implied that service providers in resource challenged environments should understand personal values of customer that may be different by culture and social demographic characteristics. These findings lend credence to the conclusions drawn by Hinson et at (2011) that training of bank employees is critical to ensure successful service delivery. At the same time the finding also indicate the need for banks operating in resource –challenged environments to consider the influence of culture on customers so as to help deliver services effectively.

Ladhari et al (2011) compared perceptions of bank service quality among Canadian (a developed economy) and Tunisian (resource –challenged) customers. The study concluded that bank priorities vary depending on the origin of their customers. For instance in Canada empathy was identified as the most important dimension for predicting satisfaction and loyalty among customers whilst ‘reliability’ and ‘responsiveness’ dimensions of service quality were identified as the most important predictors of satisfaction and loyalty among Tunisian customers. The managerial implication of these findings is that marketing practitioners must identify the dimensions of service quality that determine satisfaction and loyalty in their own country. The researchers therefore argued that a common marketing strategy (ie standardization) characterized by different economic, social and cultural environment is not appropriate.

Ladhari et al (2011) further acknowledge the contribution of internet banking as an alternative for developing, operating and offering bank services and products. They however caution banks operating in resource –challenged environment to consider the challenges posed by adopting internet banking as internet users may have different demand expectations and needs from in-person customers.

In India, Ganguli and Roy (2011) study the impact of generic technology –based service quality dimensions in banking on customer satisfaction and loyalty. The study pointed out that as consumer behaviour patterns are changing with the adoption of technology by banks in their service delivery, boosting of customer confidence is necessary so that customers accept these new –channels of service delivery. The researchers speculate that customer satisfaction and loyalty are key indicators of customers’ confidence in technology –based banking. They therefore counsel practitioners to use the technology-based dimension to segment and profile the customers based on their perceptions about service quality and hence design targeted communication to educate them on technology usage.

In 2007, Alam et al drew conclusions relating to Technology in the banking sector in Bangladesh. The research indicated that some selected segments of the Bangladeshi banking community have embraced technology with reasonable success. The study further indicated that personal computers and the internet are as day-to-day banking tools which are positive indicators and thus favour the prospects of electronic banking in Bangladesh. The research however in postulated that, in order to successfully implement the internet banking in Bangladesh liberalizing the Telecommunication and IT sectors as well as reforming the financial sectors were seen as the preconditions. The study also noted that a better understanding of the potential benefits of internet banking by the policy makers and bureaucrats is vital for a speedy implementation and further reforms.

However, the converse is the case with respect to the findings of Maumbe in 2006 whose study focused on Digital Financial Service Delivery to Poor Communities in South Africa. The study sought to understand how ICT could be extended to banking services. The study however concluded that, some clients still prefer face-to-face interactions and the personal touch characteristics of traditional banking. This was attributed to the absence of computer literacy in rural areas in Africa. There was another contrasting finding in Thailand by Srijumpet in 2007 who studied satisfaction and dissatisfaction in service encounters in the retail stockbrokerage and corporate banking industry. The aim was to examine the customer satisfaction and dissatisfaction with reference to interpersonal versus internet service encounters in Thai retail stockbrokerage and corporate banking. Interpersonal interaction was preferred to the internet encounter,

In the United Arab Emirates, Al-Mari in 2007 conducted a research on excellence in service in the banking sector. The study sought to examine the critical success factors of total quality management (TQM) implementation in the UAE banking sector. The study revealed that TQM was important in excellent service delivery in the banking sector. The study further reiterated that, in order to sustain competitive advantage TQM is essential to the banking sector in particular and other service oriented organizations in general. Molina et al. (2007) also conducted a research on a relational benefits and customer satisfaction in retail banking. In all the result suggest that scale efficiency takes prominence over the pure technical efficiency effects in the Singapore banking groups’ technical efficiency. Spathis et al (2004) research on managing service quality in banks in Greece by looking at the gender effects. It sought to investigate the quality perceptions of male and female Greek bank customers and the difference they attach to quality dimensions using the Bank Service Quality (BSQ). The study found out that, male clients of Greek banks have a more positive perception of the quality of service they receive than do women clients.

A study was conducted by Ehigie (2006) on the correlations between customers’ loyalty to their banks. The study specifically sought to examine how customer expectations, perceived service quality and satisfaction predict loyalty among bank customers in Nigeria. The results revealed

that it is important to study and understand consumer behavior for the purpose of improving customer services in the banking system in Nigeria. According to Ehigie, in order to improve on customer loyalty, bank management ought to satisfy their customers and can best be done when customers needs are known and machineries are put in place at getting them satisfied. Thus identifying and satisfying customers needs is imperative to improving bank customer services because what is offered can be used to separate own services from those of competitors.

Megicks et al (2005) studied market-oriented service development in Indian Regional Rural Banks. Their study aimed to develop a conceptual understanding of the factors influencing market orientation in the Rural Banks and also assess its impact on outreach performance. The research concluded that market orientation is key to attaining organizational performance goals in Indian Regional Rural Bank. The research further found out that, there should a relationship between the constituent variables of the MO thereby developing a proposition that relate to effective New Service Delivery which would inevitably lead to improved outreach performance. In 2007, Petridou et al did a research on Bank service quality with evidence from Greek and Bulgarian retail customers. The paper sought to assess and compare the level of bank service quality provided in Greece and Bulgaria. It also aimed at identifying the dimensions of quality service in the two countries. The results of the study suggest that, Greek bank customers perceived receiving a high level of service quality than their counterparts in Bulgaria. The difference in the perception, they identified, was the result of the bank sector developments related to the level of liberalization and competition and on the differences in sample characteristics in terms of occupation, income and bank status.

Wei and Nair in 2006 did a research on the effects of customer service management (CSM) on business performance in Malaysian banking industry. The study set out to examine how customer service management affects perceived business performance measures (PBPM) in the Malaysian banks. The findings indicated that in order to improve their competitive positions, the Malaysian banks should give high priority to CSM. To successfully implement CSM the research identified market research, customer satisfaction, customer assessment and handling of customers as important drivers.

Günsel in 2007 conducted a study in Northern Cyprus' banking sector. The aim of the study, inter alia, was to identify the determinants of bank failure. The results indicated that capital inadequacy, low asset quality, low profitability, low liquidity and small size increased the risk of bank failure. The research also suggested that high interest rates, high credit risk and low trade significantly increased the fragility of the bank in north Cyprus. Again, Saunders et al in 2007 did a study on the banking patronage motives of the urban informal poor in South Africa. The purpose was to provide an understanding of the banking needs within the urban poor in South Africa. The study identified four factors that respondents indicated as their motives. These factors are; the consumer benefits factor, the promotional factor, the basic credit factor and the consumer accessibility factors. The study further identified four factors that influence the perceived usefulness of specific services in banking the poor, which are; the transactions media factor, the tertiary plan factor, the secondary plan factor, and the primary plan factor.

## **CONCEPTUAL FRAMEWORK**

The study investigated whether there is a significant difference between customers' expectation and perception of service delivery in the banking sector in Ghana. The following hypotheses will be tested in this study:

H<sub>0</sub>: There exists no significant difference between customer expectation and perception of service delivery in the banking sector in Ghana

H<sub>1</sub>: There exists a significant difference between customer's expectation and perception of service delivery in the banking sector in Ghana

The SERVQUAL model used in this study is based on the seminal contribution by Parasuraman *et al.* (1988, 1985) which asserts that users judge the service in terms of whether the service received is equal or exceeds what was expected. Berry *et al.* (1985) conceptualized the SERVQUAL Model as an instrument to measure service quality based on the proposition that service quality is the difference between customer's expectations and perception of service delivery. In other words, service quality assessment is conceptualized as the gap between what customers expect from a category of service providers and the evaluations of the performance of a specific service provider within that category. The researchers found that high degrees of correlation exist between communication, competence, courtesy and security on the one hand, and access and understanding on the other hand. They then created two broad dimensions of empathy and assurance to make up five consolidated dimensions namely, tangibility, reliability, responsiveness, assurance and empathy. These dimensions are served on the basis for measuring service quality. In using SERVQUAL (Parasuraman, 2004 & 2010), respondents are required to complete a series of skilled questions which measure customer expectations of a particular firm on a broad area of specific service characteristics, and the corresponding perceptions of the firm's performance. As posited by Lovelock (1996), when perceived performance rating exceeds expectations, the outcome is considered as a sign of good quality whilst the reverse is an indication of a poor quality.

The SERVQUAL model has been criticised on the basis that it does not account for the influence of corporate image and reputation on the scores. To what extent does SERVQUAL measure customer perceptions and expectations engendered by a highly favourable corporate brand and reputation? Does the corporate brand and reputation affect the expectations and perceptions customers have of the service under study? Berry (1999) however countered this and insisted that irrespective of whether a firm's core offerings are products or services, superior service quality is essential for excellent market performance on an enduring basis. The SERVQUAL is further criticised on the basis that, measuring customer expectation and perceptions separately, necessarily requires that respondents have prior knowledge of the service they are to evaluate. As an alternative, Gonin and Taylor (1994) proposed the SERVPERF model, with the assumption that it is a better reflection of the long term service quality attribute than the SERVQUAL and excludes the measurements of expectation. To corroborate this, Building *et al.* (1993) reported that results on SERVQUAL were not compatible with the gap formation for service quality; rather, service quality was directly influenced only by perceptions of performance. Lovelock (1996) observed that a degree of roles exist in defining service quality primarily on the basis of customer satisfaction with outcomes relative to prior expectation. If customer expectations are relatively low while the actual service delivery is perceived to be marginally better than the dismal level that had been expected, the potential claim that customers would be receiving a good quality service would have on basis. Despite these criticisms many researchers still consider the SERVQUAL model as an excellent method of measuring service quality. Parasuraman *et al.* (1985) found strong support in an extensive exploratory study which suggested that customers evaluate service quality by making a comparison between what they feel a seller should offer (i.e. their expectations) with the seller's actual service performance. This study therefore adopts the SERVQUAL method of evaluating service delivery in the banking sector in Ghana.

## RESEARCH METHODOLOGY

### Research design

A Cross Sectional Survey method was used to ascertain the determinants of service quality. The cross sectional method was deemed appropriate and deployed because data was collected once at a particular time period and analysed. The mixed method was also used where both qualitative and quantitative data were collected. The target population of the study was all customers of banks in Ghana. The sampling was drawn from the customers of Ghana Commercial Bank (GCB), Ecobank (ECO), Standard chartered bank (SCB) and Cal bank (CAL) in Ghana. GCB and CAL are wholly-owned indigenous Ghanaian Banks while SCB and ECO are foreign subsidiaries. GCB is state-owned with the largest number of branches in the country while CAL is wholly private and is the most decorated in terms of banking awards amongst the few privately-owned indigenous Ghanaian banks. By purposeful sampling technique, four hundred customers of the four financial service providers were selected based on their market shares. Two hundred (200) customers of GCB, One hundred and fifty (150) customers of ECO, eighty (80) customers of SCB and sixty (60) customers of CAL bank were used for the survey.

**Data Collection:** The data sources included both primary and secondary data. The examination of annual reports and financial statements of the selected banks, in order to identify the key variables and state of knowledge in the subject constituted the secondary data. Primary data was also collected using standard questionnaire as the data instrument. This sampling procedure was adopted from William L. Boyd, Myron Leonard, and Charles White's Standard Instrument for weighting of rating of service quality attributes who carried out a related research.

**Instrumentation:** Using the Standard Instrument adopted, the key variables measured included *Reliability, Responsiveness, Assurance, Tangibility* and *Empathy* of services. The uniqueness of this instrument is that rather than the absolute values, it measures the relative weights of the ratings.

**Data Analysis:** Data resulting from the study was analyzed using one sample T- test of the mean weighted differences between perception and expectation of customers. The test determined whether there is a significant gap between expectation and perception at 5% level of significance. The statistical software packages SPSS and Mini-tab were then used for general analysis of the data.

## RESULTS

Table 1 below depicts the number of respondents in the sample who accessed the services of Ghana Commercial Bank ( GCB), Ecobank (ECO), Standard Chartered Bank (SCB) and Cal bank (CAL) in line with the dimensions of service quality attributes (reliability, responsiveness, assurance, tangibility and empathy) based on customers perception(Per) and expectation(Exp). These services are rated strongly agree, neutral and strongly disagree for both expectation and perception.

Table 1: Frequency distribution of respondents /assessments of service quality

	STRONGLY AGREE/AGREE				Neutral				STRONGLY DISAGREE/DISAGREE				TOTAL GCB	TOTAL ECO	TOTAL SCB	TOTAL CAL
	GCB	ECO	SCB	CAL	GCB	ECO	SCB	CAL	GCB	ECO	SCB	CAL				
Expectation of Reliability	109	56	51	36	13	3	15	2	28	1	10	3	150	60	76	41

Perception of Reliability	61	45	55	29	29	9	12	9	59	6	9	3	150	59	76	41
Expectation of Responsive	117	53	58	35	15	6	16	3	17	1	2	3	150	60	76	41
Perception of Responsive	79	48	62	29	31	8	9	8	40	4	5	3	150	60	76	41
Expectation of Assurance	86	50	50	37	28	7	20	4	36	3	6	1	150	60	76	41
Perception of Assurance	84	44	63	32	31	9	10	7	35	7	3	2	150	60	76	41
Expectation of Tangibility	89	52	55	34	30	4	17	5	31	4	4	2	150	60	76	41
Perception of Tangibility	97	49	61	35	24	9	13	5	29	2	3	1	150	60	76	41
Expectation of Empathy	104	54	62	28	28	4	10	6	18	2	4	7	150	60	76	41
Perception of Empathy	85	46	49	36	27	10	20	2	38	4	7	3	150	60	76	41

(Source: Field work 2011)

Table 2: Percentage distribution of respondents/ assessments of service quality

	STRONGLY AGREE/AGREE				Neutral				STRONGLY DISAGREE/DISAGREE			
	GCB	ECO	SCB	CAL	GCB	ECO	SCB	CAL	GCB	ECO	SCB	CAL
Expectation of Reliability	73	93	68	88	9	4	19	6	18	2	13	7
Perception of Reliability	41	75	72	72	20	15	16	21	40	10	12	7
Expectation of Responsive	78	88	76	86	10	9	21	7	12	2	3	7
Perception of Responsive	53	79	82	72	21	14	11	20	27	7	7	8
Expectation of Assurance	57	83	66	89	19	12	26	9	24	4	8	2
Perception of Assurance	56	73	83	78	21	16	13	16	23	12	4	6
Expectation of Tangibility	59	86	72	84	20	7	23	12	21	7	5	4
Perception of Tangibility	65	81	80	85	16	16	17	12	19	3	4	2
Expectation of Empathy	70	89	82	69	19	7	13	14	12	4	5	17
Perception of Empathy	57	77	64	89	18	16	26	5	25	7	9	7

(Source: Field work 2011)

Table 2 shows the percentage of respondents in the sample who accessed the services of Ghana Commercial Bank (GCB), Ecobank (ECO), Standard Chartered Bank (SCB) and Cal bank (CAL) in line with the dimensions of service quality attributes (reliability, responsiveness, assurance, tangibility and empathy) based on customers perception(Per) and expectation(Exp).

These services are rated strongly agree, neutral and strongly disagree for both expectation and perception.

Table 3: Weighted of responses of assessments of service quality((Source: Field work 2011)

	GCB	ECO	SCB	CAL	Total
Expectation of Reliability	382	175	193	115	865
Perception of Reliability	302	157	198	108	765
Expectation of Responsive	400	172	207	114	893
Perception of Responsive	339	164	209	108	819
Expectation of Assurance	350	167	196	118	831
Perception of Assurance	349	157	213	112	830
Expectation of Tangibility	358	167	203	115	843
Perception of Tangibility	368	167	210	116	861
Expectation of Empathy	387	171	210	103	872
Perception of Empathy	347	162	194	116	819
	3581	1659	2033	1125	

Table 3 contains the weighted responses of respondents. Customers' preferences of service provider attributes were weighted as: Strongly Agree/agree = 3, Neutral = 2 and Strongly Disagree/Disagree = 1.

Table 4: Gaps of weighted responses ((Source: Field work 2011)

	GCB	ECO	SCB	CAL	Total
Reliability	80	17	-4	7	100
Responsive	61	8	-1	6	74
Assurance	1	11	-16	6	2
Tangibility	-10	1	-7	-1	-18
Empathy	40	9	16	-12	53
	171	46	-13	6	

The table 4 shows differences between weight expectation and perception (gap=expectation – perception) of the five service quality attributes of the selected banks, Commercial Bank ( GCB), Ecobank (ECO), Standard Chartered Bank (SCB) and Cal bank (CAL).

Table 5: Weighted Means of responses (Source: Field work 2008)

	GCB	ECO	SCB	CAL	
Expectation of Reliability	0.42	0.49	0.42	0.47	1.80
Perception of Reliability	0.34	0.44	0.43	0.44	1.65
Expectation of Responsive	0.44	0.48	0.45	0.46	1.84
Perception of Responsive	0.38	0.45	0.46	0.44	1.73
Expectation of Assurance	0.39	0.46	0.43	0.48	1.76
Perception of Assurance	0.39	0.44	0.47	0.45	1.74
Expectation of Tangibility	0.40	0.46	0.44	0.47	1.77
Perception of Tangibility	0.41	0.46	0.46	0.47	1.80
Expectation of Empathy	0.43	0.48	0.46	0.42	1.79
Perception of Empathy	0.39	0.45	0.43	0.47	1.73

Table 5 demonstrates weighted means of the responses of the selected banks, Ghana Commercial Bank (GCB), Ecobank (ECO), Standard Chartered Bank (SCB) and Cal bank (CAL) based on customers' perception (Per) and expectation (Exe).

Table 6: Gaps of mean weights of responses

	GCB	ECO	SCB	CAL	TOTAL
Reliability	0.09	0.04	-0.01	0.03	0.15
Responsive	0.07	0.02	0.00	0.03	0.11
Assurance	0.00	0.03	-0.04	0.03	0.02
Tangibility	-0.01	0.00	-0.02	-0.01	-0.03
Empathy	0.04	0.03	0.04	-0.05	0.05
Total	0.04	0.02	-0.01	0.00	

(Source: Field work 2011)

The table 6 shows differences between weighted mean expectation and perception (gap = expectation – perception) of the five service quality attributes of customers of Ghana Commercial Bank (GCB), Ecobank (ECO), Standard Chartered Bank (SCB) and Cal bank (CAL). The total difference of expectations and perceptions of CAL customers are equal. The perception of SCB services exceeds its customers expectation while the vice versa holds for GCB and ECO.

Test of hypotheses

$$H_0: \bar{D} = 0$$

$$H_1: \bar{D} > 0$$

Since the t-computed or test statistic is less than the t-critical (2.132) for GCB, SCB and CAL, accept the null hypotheses that both absolute and mean weighted deviations are not significantly different from zero. Since the t-computed or test statistic is greater than t-critical (2.132) for ECO, reject the null hypotheses and conclude that there is a significant difference between perception and expectation at 5%.

Table 7: One-Sample T: GCB, ECO, SCB, CAL (absolute deviation)

Variable	N	Mean	Stan. dev	SE Mean	95.0% CI	t-computed
GCB	5	34.4	38.4	17.2	(-13.3, 82.1)	2.0000
ECO	5	9.20	5.76	2.58	(2.05, 16.35)	3.5659
SCB	5	-2.40	11.72	5.24	(-16.95, 12.15)	-0.4580
CAL	5	1.20	8.04	3.60	(-8.79, 11.19)	0.3333

Table 8: One-Sample T: GCB\_1, ECO\_1, SCB\_1, CAL\_1 (mean weighted deviation)

Variable	N	Mean	Stan. dev	SE Mean	95% CI	t-computed
GCB	5	0.0380	0.0432	0.0193	(-0.0157, 0.0917)	1.969
ECO	5	0.02400	0.01517	0.00678	(0.00517, 0.04283)	3.539
SCB	5	-0.0060	0.0297	0.0133	(-0.0428, 0.0308)	-0.4511
CAL	5	0.0060	0.0358	0.0160	(-0.0384, 0.0504)	0.375



## DISCUSSION

The discussion is based on an adaptation of SERVQUAL model by Parasuraman et al (1985, 1988); Parasuraman (2004 & 2010) and covers measurement of the responses on the expectation and perceptions variables of service quality. The total mean weight for the respective variable indicated that in general, majority of respondents do not perceive the banks as doing well enough on the service quality variables. On the average, customers' satisfaction levels were below 50%. The widely-held view in the marketing literature is that satisfied customers are retained while dissatisfied customers defect. However, the findings from the study indicate that in spite of the perceived low level of customer satisfaction, these customers have not defected. They have continuously maintained relationship with the bank service providers. In terms of individual firms, the trend in Table 6 shows that satisfied customers of SCB perceive their experience with the service as exceeding expectations, (customer delight). For CAL customers, they were barely satisfied, (Perception=Expectation). ECO customers are dissatisfied, with GCB customers most dissatisfied. There is therefore no evidence to support any categorization of foreign and indigenous banks or private and state-owned banks in terms of service delivery as research works in other contexts seek to do.

The specific individual variables suggest that relatively banks do well on the *tangible* aspects of their service delivery. These included the appearances of their staff, spick and span premises and attractive billboards and advertising. Respondents were least comfortable with the *reliability* variable followed closely by the *responsiveness* variable. Incidentally, *reliability* variable which relates to responding to customer needs and on time as well as accessibility to the bank 24/7, are perceived to be key performance indicators for the firms. This also applies to the *responsive* variable which relates to the performance of the branches and interest rate and bank charges. This may explain why majority of respondents were not satisfied. Significantly, these customers have still maintained relationship with the firms. GCB is the market leader with the largest market share (with corresponding relationship with its customers) but was the least satisfying firm. Relationship marketing practice therefore does not necessarily imply customers are satisfied with the service quality variables. This again seems contrary to relationship marketing models which consider quality service delivery as antecedent to successful relationship marketing practices.

## CONCLUDING REMARKS AND IMPLICATIONS

The role of service quality amongst the traditional banking providers and the new entrants in the light of the current diffusion of technology and the unprecedented competition in the industry was investigated in this paper. Included in this objective was to investigate how service quality issues are being taken into account by both the incumbents and the new players in the banking sector in Ghana in their quest to create a competitive advantage. Thus, this study focuses on the people aspect of service delivery. The study suggests that customer dissatisfaction with service quality variables does not necessarily discourage firms' successful relationship with customers. While it may be one of the inputs in the relationship marketing theory, in its absence other variable can be used to establish and maintain relationship with customers. Some of these inputs have been mentioned as understanding customer expectation, building service partnership and empowering employees. Firms for example can make switching cost high (unwilling to switch because of the image of the bank or proximity). However when new competitors are perceived to be performing better on the service quality variables it is possible that customer may switch. Relationship marketing not founded on good quality levels may only succeed when there is high barrier to entry and customers perceive little differences between competing firms.

This study concludes that where a gap exists between customer expectation and perception of service delivery, service quality is perceived as low and customer dissatisfaction results. However, dissatisfied customers would not necessarily defect. The study therefore confirms the theory that service quality is a necessary but not a sufficient condition for maintaining relationship with customers. Reliability (meeting needs on time and accessibility to the bank 24/7) and Responsiveness (poor customer service, interest rate and bank charges) variables attracted low favourable comments from respondents. These incidentally are critical to financial service delivery and consequently satisfaction of customers. Banks must therefore improve upon accessibility through service delivery, ensure that ATMs are reliable, customer service improved and bank branches are made more accessible and responsive to customer needs. This may require investment in new and up-to-date technology. Regulatory bodies like the Bank of Ghana should not only clearly spell out guidelines but also strictly enforce the regulations

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## **An explorative study of relationship marketing as a strategic tool for companies in the Nigerian Service Industry**

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*This study adopted the exploratory research design to investigate whether companies in the Nigerian service industry adopt relationship marketing concept as a strategic tool. It also sought to identify the strategic relationship marketing mix variables that companies in the Nigeria service industry adopt as they compete in the Nigerian dynamic competitive business environment. To this effect, a sample of 17 companies in the Nigerian Service industry based in Lagos was drawn using the multistage sampling technique out of a population of 73. Questionnaires were administered to the marketing staff in the selected organizations and the SPSS 19 was used to analyze the data. Findings reveal that many companies in the Nigerian service industries like their counterparts in the physical products industry implement one kind of relationship marketing variable or the other, although most do not understand the full concept of relationship marketing and are not paying full or equal attention to all the relationship marketing variables that can help them develop competitive advantage. The study concludes that companies in the Nigerian service industry need to understand and improve on their internal marketing as an enabling device for the implementation of relationship marketing and as a vehicle for promoting customer orientated behavior.*

### **INTRODUCTION**

The marketing environment exhibits certain characteristics which have tremendous impact on the survival, growth and profitability of the organization; these include dynamism, complexity, multifaceted and far reaching impact (Dixon-Ogbechi, 2003). Given these challenges, and also given the fact that organizations both in physical products or service industry are facing keen competition for survival and sustenance, they need to develop and implement efficient and effective marketing strategies for continued growth and survival (Ojo, 2011). This is of necessity because research has shown that marketing strategy has direct relationship with the survival of organizations (Olujide & Aremu, 2004) and effective marketing strategies can improve the growth of professional services in the competitive environment (Ojo, 2011).

Given the foregoing, companies both in services and physical product industries need to look for new marketing models to enhance their competitive position and achieve their objectives. Relationship marketing is one of such models/tools that can help them achieve this aim (Hawkes plc, 1995). Relationship marketing, according to Berry and Parasuraman (1991) is a marketing approach that concerns attracting, developing and retaining customer relationships. Relationship marketing, therefore, is a marketing strategy that calls for the development of continuous relationships with individual customers across a range of related products, in personalised form (Hawkes plc, 1995).

Relationship marketing is of particular interest to service organizations because service organizations because of their nature are relationship oriented. This is because there is always a direct contact between a customer and the service providers and by virtue of this; relationships are created (Articlebase.com, 2009; Gronroos, 1995). Relationship creation and maintenance is of interest to service organizations because customers are the main deciders of businesses (Articlebase.com, 2009) and also because research suggests that only those organizations that build strong, close, positive relationships with their customers have the potential to develop a sustained competitive advantage that may lead to above normal performance (Rowe & Barnes, 1997). However, it should be noted that in order to be profitable, organizations need not only emphasize on getting new customers but also in retaining existing customers, this is because research has shown that on average, business spends six times more to acquire customers than they do to keep them (Gruen, 2000).

Thus, given the fact that marketing strategy is increasingly been adopted in nearly all the sectors of the economy, particularly the service sector (Olujide & Aremu (2004) and given the volatile, highly competitive and the turbulent nature of the marketing environment, companies in the Nigerian service industry, just like their counterparts in the physical products industry need to use relationship marketing strategy to develop a competitive advantage (Olujide & Aremu (2004). To this effect, this study seeks to explore whether companies in the Nigerian service industry adopt the relationship marketing strategy and also identify the relationship marketing variables they adopt in their strategic relationship marketing mix in the competitive business environment.

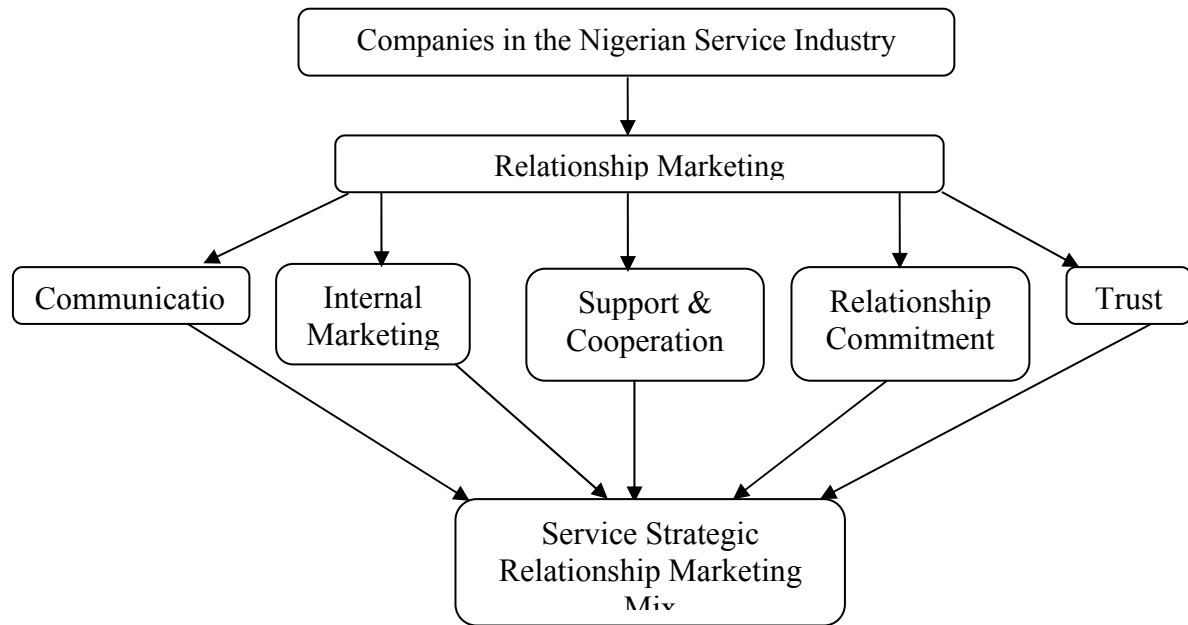
## **LITERATURE REVIEW**

Marketing of physical products is different from the marketing of services because of the peculiar nature of services. Thus, while at the basic level, the 4Ps model (Product, Promotion, Price, and Place) is used for physical products, this model has to be extended to the 7Ps in the case of marketing of services. However, because of the competitive nature of the business environment and the maturing of services marketing, the 7Ps model was found to be inappropriate for service industries, hence in 1983 Relationship Marketing originated in America as an academic response to concern over the usefulness of the 4Ps model and the 7Ps model (Berry, 1995; Hawkes plc.,1995). Recently, research has also shown that in order to enhance organizational performance, relationship marketing can be adopted as a competitive marketing strategy in marketing product as well as services to customers (Cameron, Miller & Frew, 2010; Kanagal, 2012). Kanagal (2012) viewed relationship marketing as the identification, establishment, maintenance, enhancement, modification and termination of relationships with customers to create value for customers and profit for organization by a series of relational exchanges that have both a history and a future. Zeithaml and Bitner (2000) viewed Relationship Marketing as a philosophy of doing business, a strategic orientation that focuses on keeping and improving current customers rather than acquiring new customers. Thus, Relationship marketing can be conceptualized as the practice of developing continuous

relationships with individual customers across a range of products (Hawkes plc, 1995) and services. In order to implement relationship marketing effectively, certain variables are needed for the development of the relationship marketing mix. Scholars have identified various relationship marketing variables for instance Anderson and Weitz, (1989) stated that channel relationships are dependent on (1) continuity of relationship (2) trust and (3) communications. In Hawkes plc (1995) it is stated that the minimum requirement of relationship marketing is a good customer database, highly targeted and personalised communications and consistently high levels of personalised service. Gronroos (1996) opined that relationship marketing is based on the development of trust and co-operation. Lingreen (2000) while agreeing with these, also identified promise, commitment, communication and shared values as relationship marketing variables. Sin, Tse, Yau, Lee and Chow (2002) identified six dimensions of Relationship Marketing Orientation to include: Trust, Marketing communication, Empathy, Shared value, Reciprocity, Bonding. Out of these, Kanagal (2012) is of the view that trust is very important because improvement in profitability also comes from the trust element of relationship marketing. Thereby supporting Morgan and Hunt (1994)'s view that Trust can lead to the commitment to a relationship that results from an exchange partner exerting all his/her efforts to preserve an important relationship. These notwithstanding, research by various scholars revealed that the most prominent relationship marketing variables are communication, internal marketing, relationship commitment, trust, and support and cooperation (Gabbarino & Johnson, 1999; Simpson & Mato, 1997; Sirdeshmukh, Singh, & Sabool, 2002; Yeh, 2005; Dixon-Ogbechi, Haran & Aiyeku 2009a; 2009b).

Thus by identifying the prominent relationship variables organizations in the Nigerian service industry will be able to develop effective relationship marketing strategies. This is important because relationship marketing if effectively practiced will lead to customer retention and loyalty which in turn will lead to long-term profitability (Buttle, 1996; Oboreh , Ayozie, and Umukoro, 2011; Kanagal ,2012). Given the foregoing we propose the following relationship marketing model for the Nigerian service industry.

**Figure 1: Relationship Marketing Model For The Nigerian Service Industry**



**Source:** Developed for this study

### STATEMENT OF PROBLEM

Research has constantly indicated that one of the major reasons for poor quality service is the gap between perception of managers about the customer expectations and customers' real or actual expectations (Parasuraman, Zeithaml & Berry, 1985). For marketers in the Nigerian service industry to know how to bridge this gap, they need to formulate and implement competitive marketing strategies. Relationship marketing is one of such strategies. This strategy entails establishing and maintaining long term relationships with their customers. This is particularly important not only because relationships are key functions in the marketing discipline but also because relationship marketing aims at improving customer satisfaction and loyalty through the development of such relationships (Cameron, Miller & Frew (2010).

Though research has shown that Nigerian business organizations and non-business organizations have to embrace the relationship marketing concept in order ensure their survival, profitability and growth (Oboreh , Ayozie, and Umukoro, 2011 ); there is little or no evidence to show that this is so in the Nigerian service industry. This study seeks to fill this gap in knowledge by investigating whether companies in the Nigerian service industry are familiar with the relationship marketing concept and also to identify the relationship marketing variables they adopt in their strategic relationship marketing mix in the competitive business environment.



## OBJECTIVES OF STUDY

This study aims to:

- i. investigate the views of companies in the Nigerian Service Industry on the use of relationship marketing tools.
- ii. examine the extent of the use of relationship marketing as a strategic tool by companies in the Nigerian Service Industry;
- iii. examine which relationship marketing tools they think are best suited to overcoming competitors;
- iv. determine the strategic relationship marketing mix of companies in the Nigerian Service Industry.

## RESEARCH HYPOTHESES

- H<sub>01</sub>: Overall the views on relationship marketing will be positive to very positive, with the items addressing relationship commitment receiving the highest ratings.
- H<sub>02</sub>: The relationship marketing variables trust and relationship commitment are considered more important than communication, internal marketing, and support and cooperation given the Nigerian socio-cultural context; and they will be ranked in that order in terms of placement in the relationship marketing mix.
- H<sub>03</sub>: Companies in the Nigerian Service Industry will report that they *use* relationship marketing strategic tools of trust and relationship commitment significantly more than communication, internal marketing, and support and cooperation, but that it is trust and support and cooperation which will yield the greatest impact in overcoming competitors.

## METHODOLOGY

### Research design

This study adopted the exploratory research design using a combination of both the quantitative and the qualitative research methods as suggested by Zebal (2003). The population of this study is made up of 73 companies in the Nigerian Service industry based in Lagos metropolis.

### Sampling Procedure and Instrument

A sample of 17 companies in the Nigerian Service industry based in Lagos was drawn using the multistage sampling technique out of a population of 73, this is sample is approximately 23.3% of the population. Judgmental sampling technique was used to select the companies and the category of employees to study in the selected companies, this was used to ensure that as the different types of companies in the service industry are represented in the sample while the disproportionate stratified sampling technique was used to select the individual employees sampled in the units so as to balance the two criteria of strata size and variability. The research instrument used was a slightly

modified validated instrument used for previous studies by Dixon-Ogbechi *et al.* (2009a; 2009b). It was mainly developed by using questions generated by making use of variables identified from previous empirical studies that can be used to measure the selected five prominent relationship marketing variables - Communication, Internal Marketing, Relationship Commitment, Support and Cooperation and Trust.

### **Population and Sample Size**

The population of this study was the marketing staff of companies in the Nigerian service industry in Lagos metropolis. Overall 800 questionnaires were administered to respondents in the 17 selected companies. This sample size was considered adequate because research has shown that a sample size of 100 and above is sufficient to provide good representation of the population of study (Dillman, 2000; Hill, Brierley and MacDougall (2003). Out of these, 598 were completed correctly, with a return rate of 75%.

### **Instrument Administration**

Several research assistants administered the instruments over a one month period; the instruments were administered manually to ensure effective and efficient coverage and increased response rate.

### **Identification and Measurement of Variables**

The following dependent and independent variables are identified:

Dependent Variables: Service Industry Strategic Relationship Marketing Mix (SISRMX)

Independent Variables: Relationship marketing variables such as: - Trust (T), Relationship Commitment (RC), Communication (C), Internal Marketing (IM), and Support and Cooperation (SC).

Therefore, we posit that: Service Industry Strategic Relationship Marketing Mix is a function of the of Communication, Internal Marketing, Relationship Commitment, Support and Cooperation and Trust. That is:  $SRMX = f(C, IM, R, SC, T)$ .

Likert –Type scaled questions were mainly used to measure the relationship marketing variables in the service industry laying emphasis on Use of Relationship Marketing Strategies, Extent of Use, Overcoming Competition, Trust, Relationship Commitment, Communication, Internal Marketing, and Support and Cooperation.

### **Computer Programs/Analyses.**

The SPSS 19 was used for data analyses.

## **RESULTS**

### **Demographic Description**

The descriptive analysis showed the respondents from the service companies to be between 20 and 40 years old (89%); male (58%); single (51%) or married (47%); Christian (83%); in the middle level (43%) or lower level (33%) of their organizations; with between one and five years of work experience (45%); and a bachelor's degree

(55%). 53% of the respondents had been with their particular company between one and five years. The companies were identified as indigenous (51%) and Multinational (48%).

### **Results of Views of Relationship Marketing**

Overall the views of relational marketing in the service organizations were very positive, (4.55/5.00). The most positive were that the organizations placed priority on relational satisfaction and that the customers trusted the organization. They also believed that their organizations used relationship marketing as a strategy for profit maximization (4.57), but were less sure, although still positive, that the profit level was good because of this strategy (4.10). The only two items to fall below positive were items that dealt with internal marketing: holding the employees in high esteem and investing in employee motivation.

### **Results of Extent of Use**

The next section of the questionnaire focused on the extent of use of various relationship marketing tactics. Respondents reported that “using communication as a vehicle for creating customer satisfaction” and “building customer commitment through dependable product offerings” have the highest extent of use ratings, 4.20 and 4.16, respectively. They also reported building customer commitment through dependable product offerings and building of qualitative relationships with customers by placing a high priority on relationship satisfaction as used to a great extent, 4.12 and 4.10. These were followed by promotion of close partnership of the marketing unit and the customers and a high investment in customer support programs, 4.08 and 4.06, respectively. The internal marketing items, using internal marketing as an enabling device for the implementation of relationship marketing and as a vehicle for promoting customer orientated behavior were the only items that fell to an extent of use rating below 4.

When the items in this section were organized on the domains of: trust, relationship commitment, communication, internal marketing and support and cooperation, the communications scale was highest with a mean of 4.20. This was followed by relationship commitment and trust tied at 4.11, support and cooperation was at 4.04 and internal marketing at 3.93.

**Table 1: Extent of Use of Marketing Relationship Strategies**

Relationship Marketing Domain	Rating
Communication	4.20
Relationship Commitment	4.11
Trust	4.11
Support and Cooperation	4.04
Internal Marketing	3.93

### **Results on Views on Competition**

Service companies felt that their best strategy on overcoming competition was to operate an effective communication system (4.42) an efficient communications system (4.40) and

an effective customer support system (4.40). In addition they believed they should fulfill contract obligations (4.37) operate an efficient customer support system (4.36) and place high priority on building qualitative relationships with customers (4.36). At the next highest level was to adopt a marketing strategy that viewed the customer as king in designing and implementing its internal marketing programs (4.24) and use internal marketing as a tool for aligning the efforts of the various organic business functions within it (4.23). Strategies that were lowest rated for use in overcoming competition were to: systematically disseminate customer related information (3.97); involve customers in the product design process (3.90); involve customers in the production process (3.89)

**Table 2: Competitive Use of Marketing Relationship Strategies**

Relationship Marketing Domain	Rating
Relationship Commitment	4.36
Communication	4.23
Trust	4.18
Support and Cooperation	4.18
Internal Marketing	4.13

### **Forming the Strategic Relationship Mix**

When respondents were asked to express their extent of agreement with each kind of relationship marketing variable being used in the marketing mix, given the Nigerian socio-cultural context Trust and Communication were tied at the highest level (4.56), closely followed by Relationship Commitment (4.53). Internal marketing (4.41) and Support and cooperation (4.38) were lowest in relative ranking but it should be noted that the median rating for all types of relationship variables was 5, and that the picture evidenced here was that all should be incorporated in the relationship marketing mix.

### **DISCUSSION**

Views on a broad spectrum of statements regarding how relationship marketing is working in respondents' organizations were overall very positive. All medians were 4 (out of 5) or above and only two statements had means less than 4. In terms of type of relationship marketing variables, the company placing a priority on relationship commitment and that customers trust their organization received the highest ratings. This confirms the expectations stated in hypothesis one.

Similarly, when the respondents were asked which type of relationship marketing variables should be included in the mix, given the Nigerian socio-cultural context, all were highly rated but the highest group included the hypothesized variables of trust and relationship commitment, supporting hypothesis two. However, communications was tied with trust, and higher than relationship commitment. That was not as expected. These three types of relationship marketing variables were also the most used, as identified by the respondents. This again partially supported the hypothesis in that trust and relationship commitment were among the top three, but it was the communication variables that were seen as most extensively used.

The expectation of hypothesis three, that to obtain competitive advantage it would be the activities characterized as developing trust and support and commitment which would be seen as most advantageous, was not supported. It was relationship commitment and communication in the top two spots, followed by trust and support and cooperation. One should be careful about interpretation of these ratings, however, since upon further investigation the items included under support and cooperation included two items that dealt with product design and production processes which would perhaps have less importance in the service industries. Without these items support and cooperation would be rated as the best strategy, slightly ahead of relationship commitment.

Finally, it should be emphasized that these should be looked at as indicators of emphasis but not exact rankings. The variability within each rating was larger than the differences between them for the most part.

## **CONCLUSION AND IMPLICATIONS**

Marketing environment in Nigeria is very dynamic and volatile especially the service sector. To remain relevant and competitive, companies operating in this environment must constantly find ways to respond to the market place. One such effort is the adoption and implementation of relationship marketing strategy. The result from this study indicates that many companies in the Nigerian service industries like their counterparts in the physical products industry, implement one kind of relationship marketing variable or the other, although most do not understand the full concept of relationship marketing and are not paying full or equal attention to all the relationship marketing variables that can help them develop competitive advantage. The study concludes that companies in the Nigerian service industry need to understand and improve on their internal marketing as an enabling device for the implementation of relationship marketing and as a vehicle for promoting customer orientated behavior.

## **RECOMMENDATIONS**

Since many companies in this study implement relationship marketing strategy, even though some do not even understand the concept or the relevant variables use to implement relationship marketing, we therefore recommend that:

1. More education is needed to help the Nigerian service industry understand the full concept of Relationship Marketing.
2. There is a need to promote and encourage Nigerian service marketing industry to participate in Relationship Marketing activities.
3. Firms in the Nigerian service industry need to pay close attention to their internal marketing strategy.
4. Both government and non-government organizations in the service sector need to embark on public relation effort that will help the Nigerian service marketing industry realize the added values for implementing efficient Relationship Marketing programs.
5. There is a need to educate the consumer to be active and demand better service from the companies in the Nigerian service industry.

## FUTURE RESEARCH

Future research can be conducted as follows:

More studies on ways to increase adoption and implementation of Relationship Marketing within the industry. Also comparative studies can be done by: comparing the multinationals and the indigenous companies, comparing the lower level to the middle level managers and other demographic comparisons.

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## **How Adequate is the Demand Aggregation Framework For African Emerging Markets? An Empirical Investigation in Ghana**

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*This article extends the recently proposed demand aggregation framework to an African emerging market context by examining the adequacy of the framework in explaining the link between business strategy, the marketing mix and market performance on a sample of Ghanaian firms. The results show that although the framework exhibits adequate measurement properties and robustness for firms pursuing a cost leadership/standardization of marketing activities (affordability, accessibility, acceptability and awareness), only affordability and acceptability activities were linked to performance of the sample of Ghanaian firms. Managerial and theoretical implications are discussed.*

### **INTRODUCTION**

With emerging market economies posited to dominate world markets in the next few decades, academicians are now increasingly grappling with the issue of how to conceptualize conventional marketing theories and practices in EMs context (e.g., Akaah, Dadzie, and Riordan 1988; Gu, Hung, and Tse 2008; Bartels 1983; Cavusgil and Yavas 1984; Dholakia 1981; Dipaolo 1976; Drucker 1958). An underlying issue is the feasibility of conventional demand differentiation practices (e.g., market segmentation and customer orientation) given the dominance of the mass market and the small size of the elite market in emerging markets (EMs). Some scholars, taking a global segmentation approach, argue that conventional demand differentiation practices of targeting different elite markets in different countries are feasible (Burgess and Steenkamp 2006). However, other scholars, especially Sheth (2011) have argued that EMs firm should shift to demand aggregation. They posit that firms can enjoy superior financial performance by standardizing marketing activities to make products/services affordable, acceptable, accessible, and by increasing awareness (Sheth and Sisodia 1999).

In this article, we seek to evaluate the adequacy of the demand aggregation advantage framework as a tool for planning marketing activities in Ghana. The study has two research objectives. First, we seek to extend Sheth's (2011) demand aggregation theory by the linking standardization of marketing activities to cost leadership strategy in Ghana. While much is known regarding the link between cost leadership strategy and firm performance in EMs contexts, very little is known about the marketing activities that drive the implementation of cost leadership strategy in EMs context. In particular, we evaluate the construct validity of the demand aggregation-cost leadership strategy-firm performance relationship in a Ghanaian context.

The second research objective is to demonstrate the actual marketing strategy implications of the demand aggregation advantage by identifying which demand aggregation activities Ghanaian firms emphasize and to what extent the outcomes of these practices are contingent upon the cost



leadership orientation of the firm. We chose to address the research objectives in Ghana because, contrary to previous thought, recent research has shown that Ghanaian firms do implement cost leadership strategy (Acquaah, Ajdei and Mensa-Bonsu 2008). However, the influence of marketing activities in the implementation of this strategy is yet to be examined.

### **Research Framework**

From a theoretical perspective, the demand aggregation framework offers a standardization perspective for the implementation of the marketing mix elements of managerial marketing. This framework has traditionally been operationalized as the 4Ps of price, promotion, place and product (McCarty 1964). McCarty originally created this framework in order to aid practitioners marketing planning activities (Bennet 1997;Palmer 2004) and has since dominated the marketing management literature (Gronrose 1994).

Recent efforts to operationalize the marketing mix framework are in response to increasing recognition that the 4Ps framework lacks a consumer orientation and may be inadequate for EM contexts where consumption decisions reflect a different set of market conditions. As such, other scholars have proposed the 4As (acceptability, affordability, accessibility and awareness) as being more appropriate for emerging markets' consumption environments of scarcity, where consumers make tradeoffs with a focus on survival, where they simply cannot consume that which is not affordable, and where convenience is not as valued as in a surplus-oriented consumer economy (Sheth and Sisodia 1999). The 4As elements are theoretically grounded in the demand aggregation advantage framework recently proposed by Sheth (2011). We explore the validity of the 4As assumptions in African EMs business contexts with a focus on Ghana.

### **Theory Development**

It is widely accepted in the marketing literature that firms with different strategies implement different strategic actions to attain superior performance and therefore marketing managers should organize marketing activities in ways that enhance the goals of the business strategies (e.g., Slater and Olson 2000; Walker and Ruekert 1987; Vorhies and Morgan 2003). This argument suggests that the performance impact of marketing mix activities will be contingent upon a firm's overall business strategy. Two widely used business strategies are differentiation strategy and cost leadership strategy (Porter 1980; 1985). Differentiation strategies focus on innovation and premium price in order to distinguish products or services and therefore a focus on the traditional 4Ps is more appropriate because firms can optimize any aspect of the marketing mix to differentiate its market offerings. Cost leadership firms focus on standardization and therefore demand aggregation is more inherent in pursuing competitive advantage.

According to Sheth (2011), superior performance in the EM context is driven by an emphasis on market aggregation, not differentiation, as is practiced in mature markets. Market aggregation requires standardization to achieve the economies of scale and cost advantages that allow firms to offer affordable products/services in poor economies. Standardization also enhances customer accessibility, both in terms of availability of merchandise upon demand (fill-rate) and spatial convenience. Wal-Mart's success with demand aggregation, by using logistics to make products accessible and affordable in rural regions of the United States, is a classic example. Hence,

H1: Standardization of marketing mix activities (affordability, acceptability, accessibility, and awareness) has a positive influence on the implementation of cost leadership orientation.

H2: Cost leadership orientation has positive influence market performance.

### **Data Collection**

We conducted our field study in Ghana based on a sample of firms located in the industrial and political capital city of Ghana, Accra. The sample consisted of 180 managers who were selected from the local chamber of commerce directory. The data collection was conducted by graduate students for course credit. The majority of the respondents (81%) was between 38 and 44 years of age and had worked for at least two years with their current employer. Slightly over 45% of the respondents' firms were consumer firms, 25% were business firms, and the remaining 30% were both consumer and business firms. Just over 40% were goods firms, 30% were service firms, and the remaining 30% were hybrid goods and service firms. The managers held positions in various areas in their organizations, including general manager (25%), marketing or sales manager (40%), customer service manager (20%), general administration (10%), and other positions (5%).

### **Scale Development and Questionnaire Design**

Three focal constructs were operationalized and measured in the present study including (1) the standardization of the 4As of marketing mix activities, (2) cost leadership strategy, and (3) market performance. The measures for the 4As of the marketing mix were developed based on the literature (Akaah et al. 1988; Dadzie 1989; Sheth and Sisodia 1999; Sheth 2011) following conventional scale development procedures. Cost leadership business strategy was measured using Porter's (1980) competitive strategies measures including "Pursuing operating efficiencies;" "Pursuing cost advantages in procurement;" "Pursuing economies of scale"; and "Gaining market share through aggressive pricing of product." Firm performance was operationalized as market performance. Respondents were asked to provide market performance relative to their primary competitor on a five-point scale for the following items: profitability, sales growth, perceived return on investment, customer satisfaction, market share, customer retention, new customers gained, and a category of *other*. Asking respondents to compare performance relative to the competition helps to control for potential variation in performance due to industry/market type.

### **Analysis**

Analysis was conducted in three incremental stages including: (1) scale accuracy analysis, (2) common method bias assessment and scale validation and (3) structural analysis.

### **Scale Accuracy Analysis**

The descriptive statistics and correlation matrix for the study variables summarized in Table 1 indicate that the correlations between market characteristics and market performance are not significant. Therefore, market characteristics were excluded from the analysis to conserve statistical power. The accuracy of all the scales was assessed through reliability and validity tests.

*Reliability Tests.* We used the following criteria to establish scale reliabilities: (a) Cronbach's alpha coefficient of 0.7, (b) composite reliability (CR) index of 0.7, and (c) an Average-Variance-Explained (AVE) value of 0.5. As shown in Table 2, all Cronbach's alpha coefficients were above the threshold; all the CR estimates exceeded the criterion values; all the AVE estimates were greater than 0.5. Thus, the results provide evidence of marginal to acceptable scale reliability for both frameworks.

*Convergent validity.* For convergent validity, we examined the factor loadings of each manifest indicator (i.e., scale item) to its corresponding construct, using a value of 0.5 as the threshold (White, Varadarajan and Dacin 2003).

*Discriminant validity:* The following criteria were applied to establish discriminant validity: (a) each latent construct AVE value had to exceed shared variances (squared correlations between latent constructs) between all possible pairs of reflective constructs, and (b) item cross-loadings,

i.e., each item of a construct to load more to its own construct (i.e., factor loadings) than to other constructs. The AVE values fell within accepted ranges; there were no statistically significant item cross-loadings. Thus, discriminant validity was established, suggesting that the research scales convincingly captured distinct components in Ghana.

#### **Common Method Bias Assessment and Scale Validation**

In addition to steps taken to minimize potential common method bias during the questionnaire design and data collection phases (Lindell and Whitney, 2001; Mitchell, 1994; Podsakoff, Mackenzie, Lee and Podsakoff 2003), we assessed the possible existence of common method bias using a CFA approach to Harman's One-Factor test (Babakus, Yavas and Ashill, 2009; Baldauf, Cravens, Diamantopoulos and Zeugner-Roth, 2009). The proposed model for the 4As framework ( $\chi^2_{246} = 611.8$ , CFI = 0.90, NFI = 0.90, GFI = 0.88, RMSEA = 0.05) was compared to the One-Factor model. The One-Factor model had a significantly worse fit ( $\chi^2_{536} = 1,160.5$ , GFI = 0.52, CFI = 0.48, NFI = 0.50, RMSEA = 0.20; AIC = 1210.20 and SBC = 1705.20,  $\Delta\chi^2_{28} = 675.51$ ,  $p < .001$ ). Thus, common method bias was not a serious problem in this study.

Subsequent analysis for two-factor, three-factor and four-factor models showed that the four-factor model offered the best fit in both frameworks (see Table 3). The Chi-square = 611.8, df. = 246, GFI = .88, NNFI = .90, RMSEA = .05, AIC = 719.5, and SBC = 866.30. For the 4Ps, Chi-square = 661.6, GFI = .89, CFI = .91, NFI = .89, RMSEA = .04, AIC = 729.5, and SBC = 876.30. Overall, both frameworks show moderate but acceptable measurement properties in a Ghanaian regulatory context.

**TABLE 1**  
**DESCRIPTIVE STATISTICS AND CORRELATION MATRIX FOR STUDY CONSTRUCTS**

Variable	Mean	Std	1	2	3	4	5	6	7	8	9	10
4As or Demand Aggregation												
MKTPERF	3.12	1.6	1.0									
AFFORD	2.87	1.4	.69	1.0								
ACCESS	2.16	1.2	.60	.78	1.0							
ACCEPT	2.66	1.4	.62	.83	.75	1.0						
AWARE	2.35	1.3	.53	.74	.69	.79	1.0					
LOWCOST	3.04	1.0	.52	.63	.39	.58	1.0					
CONS (%)	27	44	-.07*	-.04*	-.05*	-.04*	-.07*	-.01*	1.0			
GOODS (%)	25	43	.02*	.13*	.10*	.14*	.26*	.06*	.35	1.0		
SERVC (%)	49	50	-.03*	-.09*	-.07*	-.09*	-.14*	-.08*	-.19	-.57	1.0	
B2B (%)	24	42	.07*	-.03*	.04*	-.02*	-.09*	.01*	-.34	-.27	.36	1.0

- Not significant at  $p < .05$ .

Note: MKTPERF = market performance, AFFORD = affordability, ACCESS = accessibility, ACCEPT = acceptability, AWARE = awareness, LOWCOST = Cost leadership orientation, CONS = consumer markets, GOODS= industrial goods, SERVC = Services, B2B= business-to-business markets.

**TABLE 2**  
 Scale Accuracy Analysis

Research Constructs	Mean Value*	Cronbach Test	C.R. Value	AVE	Highest S.V.	Factor Loading	Highest Cross-loading	
Differentiation Strategy	3.501	0.71	0.81	.52	0.29	I <sub>DS-1</sub>	0.56	0.41
						I <sub>DS-2</sub>	0.69	0.25
						I <sub>DS-3</sub>	0.70	0.42
						I <sub>DS-4</sub>	0.65	0.33
						I <sub>DS-5</sub>	0.78	0.41
Cost Leadership Strategy	3.87	0.73	0.83	0.55	0.29	I <sub>LS-1</sub>	0.71	0.35
						I <sub>LS-2</sub>	0.75	0.33
						I <sub>LS-3</sub>	0.83	0.42
						I <sub>LS-4</sub>	0.68	0.32
Marketing Performance	3.12	.71	.78	0.53	0.41	I <sub>MP-1</sub>	0.81	0.50
						I <sub>MP-2</sub>	0.65	0.43
						I <sub>MP-3</sub>	0.73	0.43
						I <sub>MP-4</sub>	0.73	0.48
Affordability	2.87	0.91	0.73	0.59	0.29	I <sub>AF-1</sub>	0.79	0.37
						I <sub>AF-2</sub>	0.75	0.39
						I <sub>AF-3</sub>	0.69	0.37
						I <sub>AF-4</sub>	0.81	0.43
Acceptability	2.66	0.90	0.83	0.55	0.29	I <sub>AC-1</sub>	0.86	0.39
						I <sub>AC-2</sub>	0.85	0.40
						I <sub>AC-3</sub>	0.81	0.42
						I <sub>AC-4</sub>	0.85	0.45
Awareness	2.35	0.90	0.82	0.53	0.41	I <sub>AW-1</sub>	0.87	0.43
						I <sub>AW-2</sub>	0.69	0.36



Strategic Orientation	Samples			
	Linkages in the Model	Overall (n= 180)	Low	High
Direct Effects of The 4As		Moderation	Effects	
Affordability->Low -cost	.49(.07)*	Affordability->	MKTPERF	.25(.22) .58(.13) **
Acceptability->Low -cost-	.29 (.11)*	Acceptability ->	MKTPERF	.18 (.20ns) -.07 (.16) n
Accessibility->Low-cost	-.06 (.09)ns	Accessibility->	MKTPERF	.36 (.16)* .24 (.15) ns
Awareness->Low-cost	.15 (.08)ns	Awareness ->	MKTPERF	-.22 (.17) ns .06 (.17) ns
Low-cost -> MKTPERF	.61 (.05)**			
Moderating Effect				
$\chi^2 = 9.32$ (df=4), $p < .05$				

\* $p < .05$ , \*\*  $p < .01$

The 4As:  $\chi^2 = 24$ , (Df=5), GFI = .94, CFI = .95, NFI = .97, RMSEA = .08, AIC = 56.50, BCAIC = 115.90 and SBC = 99.90

Note: Cost leadership orientation: low, n = 96 and high, n = 84.

## DISCUSSION

### Contribution to Theory

Our findings confirm and extend Sheth's (2011) demand aggregation advantage theory in several ways. First, we confirm the robustness of the demand aggregation framework by demonstrating that it exhibits acceptable measurement properties in a Ghanaian business environment. Second, we contribute to theory by demonstrating that only two of the demand aggregation activities have a positive impact on performance and such impact is contingent on the strategic fit with the cost leadership orientation of the firm's overall business strategy. The demand aggregation activities that enhance market performance in Ghana include affordability and accessibility of product/service. The lack of significant influences of accessibility and awareness activities suggest that such conveniences are of little strategic importance in establishing a competitive advantage in Ghana. Thus, our results suggest that although demand aggregation advantage is feasible in Ghana, its efficacy is limited to affordability and acceptability.

### Contribution to Practice

The study provides insight into the actual role of the marketing mix in an African EM context where managers have to grapple with a predominantly mass market (Acquaah et al. 2008). It shows that although cost leadership is inherent in the standardization of marketing activities, only two (affordability and accessibility) are considered to offer strategic advantage in Ghana. Hence, managers in Ghana and in similar EM contexts should be cognizant of the need to identify the appropriate marketing mix activities to standardize when seeking to build demand in mass market. An emphasis on the conveniences of accessibility and awareness may be ineffective when pursuing a cost leadership business strategy.

### Limitations and Future Research

The results and conclusion of this study cannot be asserted with more confidence because we focus on only the 4As. A comparative analysis of the relative importance of the 4As and the 4Ps would be a useful future research endeavor. Second, our cross-sectional design reflects the

perspective of firms and self-reported evaluation of their marketing practices. While this approach provides useful and informed data on the firms' marketing practices, it excludes the customers' perspective or input. Thus, future research should seek customer feedback on the elements of the 4As of the demand aggregation framework. Finally, although we explore the causal links between marketing practice, business strategy and market performance, causality effect may be limited by the cross-sectional nature of our data.

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## **Technology-based service encounter – an empirical study of the propensity to use e-mail as a booking tool in hotel industry**

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*This paper aims to review relevant literature on interpersonal and technology-based buyer-seller interactions in the process of creating service outcomes in the hospitality sector. Also highlighted is the extent to which technological interface that enables customers to produce a service outcome, independent of a direct service employee involvement, is used by hotels of various categories in France. An e-mailing action that encompasses sending a typical room-booking request to 240 hotels spread out in 120 cities located in France constituted the empirical setting. One-way ANOVA testing differences between means was used to assess the impact of the hotel category (independent variable) on response time (dependent variable) among hotels in France. Findings show that there is significant dissimilarity in responsiveness across hotels categories. A major implication of the findings for management is the fact that the speed of response to enquiries from current and potential customers is most likely a prelude to providing good quality technology-based buyer-seller interactions to create service outcomes using the Internet/e-mail. The main contributions of this study are its treatment of relevant literature and its depth and contribute to technological interface literature. Thus this paper is a key resource for, among others, marketing practitioners wanting to focus on future growth.*

### **INTRODUCTION**

The globalization of markets and production has enhanced e-mails adoption by the actors operating in the hospitality business sector that enables their guests to book and/or to buy a stay thus bypassing travel agencies (Osarenkhoe and Bennani, 2011). Consequently, e-mailing has altered sales practices and provided hotels with the opportunity to differentiate themselves from competitors. This change has driven hoteliers to use e-mail features efficiently for the benefit of their guests and their business. Bitner, et al. (2000); Parasuraman, et al. (2005); Osarenkhoe and Bennani (2007) highlight the vital role that technology play in the delivery of services and will continue to be a crucial component in the customer-firm interactions. These technology-based interactions are expected to become a key criterion for long-term business success (Meuter, et al. 2000, p. 50). Researchers such as Rayport and Sviokla (1995) and Cheng et al., (2011) propose that the traditional marketplace interaction is being replaced by a marketpace - a virtual realm where products and services exist as digital information and can be delivered through information based channels (Meuter, et al. 2000, p. 51). There has been unprecedented resurgence of academics as well as practitioner interest in the salient features and dynamics of interpersonal interactions between service providers and customers (Bettencourt and Gwinner, 1996; Fischer, et. al. 1997; Goodwin, 1996; Osarenkhoe et al 2006 ; Chaiprasit et al 2011; Lee et al. 2011 ;

Cheng et al. 2011; Wiengarten, 2011). Customer interactions with technological interfaces, on the other hand, are under-researched (Bitner, et al. 2000). Bitner et al demonstrated in their study that self-service technologies (a classical example of marketspace transactions or virtual network in which no interpersonal contact is required during the buyer-seller exchange process) are indeed increasingly changing the way customers interact with firms to create service outcomes.

It is postulated in extant studies (Winata and Mia, 2005; Evans, 2005; Chen, 2007b; Sainaghi, 2010) that the main empirical contributions to the performance issue have focused first, above all, on the industrial sector and, subsequently, on some segments in the service sector (banks, retail, insurance), but have neglected the hospitality travel and tourism sector, with a few exceptions. Some features of hotel businesses (Harris and Brander Brown, 1998; Mia and Patiar, 2001; Winata and Mia, 2005) and, in particular, the presence of three different business units marked by a high intangibility (rooms), the presence of a physical asset (food and beverage) and the typical features of a retail business (stores), above all, make this industry a fascinating research field, together with the strong growth recorded by the sector in the past, growing competition (Collier and Gregory, 1995; Harris and Brander Brown, 1998) and the existence of a high spatial concentration (destinations) (Baum and Mezias, 1992; Dredge, 1999; Enright and Newton, 2004; Ingram and Inman, 1996 cited in Sainaghi, 2010).

Emphasis in the academic literature in general (Bettencourt and Gwinner, 1996; Bitner, et al, 1990; Clemmer and Schneider 1996; Fischer, et al 1997 cited from Meuter, et al 2000) and extant studies on hospitality sector in particular (Sahadev and Islam 2005; Sigala, 2003; Martin, 2004; Baker et al, 1998; Yilmaz and Bitici, 2006; Morrison et al, 2004) has focused almost exclusively on the interpersonal interactions between service providers and customers, there is more to be learned about buyer-seller interactions with technology-based self-service delivery options (Meuter, et al 2000; Cheng et al., 2011; Lee et al., 2011).

The basic premise of this paper is that there are large variations in its use across hotels categories. There can be significant dissimilarities in the response time when using e-mails to communicate with customers. This paper investigates these dissimilarities on the basis of an e-mailing action that encompasses sending a typical room-booking request to French hotels. It analyses the response time to see how promptly hoteliers reply; which hotels categories make use of e-mailing to answer their customers rapidly. The objective here is to draw up an overview of e-mailing as used by hotels in France and to work out if the response time differs across hotels categories. Prompt Response to room-booking request via e-mails is a legitimate issue in marketing that warrant to be investigated because it is demonstrated in extant literature that response time to customer requests is one of the episodes that have a positive effect on customer satisfaction (Reichhel and Shefter, 2000; Grönross, 2000; Wang and Wang, 2010; Osarenkhoe and Bennani, 2007 & 2011).

The purpose of this paper is to review extant literature on interpersonal and technology-based buyer-seller interactions in the process of creating service outcomes in the hospitality sector. Also highlighted in this paper is the extent to which technological interface that enables customers to produce a service outcome, independent of a direct service employee involvement, is used by hotels of various categories in France. The literature survey and the empirical study are used as a prelude to suggest future research avenues for the marketing of tourism services.

The main contributions of this paper are its treatment of relevant literature. A further contribution is that approach taken in the paper encompasses reviewing the relevant literature and focusing on the key themes most important for future research on hospitality industry.

The rest of this paper is as follows: first, we introduce the theoretical and conceptual foundation. This is done by reviewing literature related to the use of information and communication technology and Internet in the hotel industry. This is followed by a description of the research methodology; findings will be revealed and analyzed before the conclusion. Managerial implications directions for future studies are highlighted at the end of the paper.

## **THEORETICAL AND CONCEPTUAL BACKGROUND**

### **Technology-based service encounter**

The world is becoming increasingly characterized by technology-facilitated transactions (Cheng et al., 2011; Lee et al., 2011). Growing numbers of customers interact with technology to create service outcomes instead of interacting with a service firm employee (Meuter et al 2000; Chaiprasit et al., 2011). Thus, phenomenon of the Internet has forced businesses and organisations to examine their existing business practices and adopt new methods of working, both for existing and potential customers. According to Shiels et al (2003), the characteristics of the firm and industry sector are, however, contributory factors to the extent of adoption and exploitation of information and communication technology (ICT) by firms, to support business processes. The use of Information Technology and Communication (ICT) has been growing fast in the worldwide hospitality industry. Hoteliers are increasingly adopting Internet, mainly the e-mail and Web, to interact with their guest and provide easier access to customized service. According to Meuter et al (2000), understanding customer need and preferences with technology-based service encounters self-service technologies are increasingly changing the way customers interact with firms to create service outcomes.

Buyer-seller interactions during service encounter have historically taken place on an interpersonal basis (Bettencourt and Gwinner, 1996; Fischer, et. al. 1997; Goodwin, 1996; Osarenkhoe et al 2006 ; Chaiprasit et al 2011; Lee et al. 2011 ; Cheng et al. 2011 ; Wiengarten, 2011). Recent academic researchers have recognized the critical importance of technology in the delivering of services (Parasuraman, 2000; Parasuraman, et al 2005; Bitner et al, 2000, Meuter, et al 2000 & 2005, Sahadev and Islam, 2005). In the tourism sector, new advances in ICT offer several tools capable of providing tourism information in a more fast and ease way. In this scenario, tourism industry might increase the chances of success by exploiting the potentialities of these technologies along with new business practices and strategies. To date, several projects in ubiquitous and context-aware computing have been focused on mobile devices (i.e. iPhone, iPod, iPad, pocket PC, etc.) as support for museum and tourism guides (Pantano and Tavernise, 2010; Kemperman et al., 2009) in order to preserve existing tourists and attract new ones. One of the most efficient tools might be represented by pervasive environments, which have not been completely investigated in the tourism literature.

The increasing competition among territories forces tourism industry to define new strategies in order to improve the position of each area, thus attracting more tourism flows (Dwyer et al., 2009; Yeoman et al., 2009) and enhancing economic advantages (Zhang et al., 2009; Bornhorst et al., 2010). Current researches in information and communication technology (ICT) considerably affect the tourism sector, by providing innovative tools capable on the one hand of supporting consumers in organizing their holidays, and, on the other one, of supplying fast and efficient information on consumer behaviour. These innovations compel the sector to develop new marketing and managerial strategies (Egger and Buhalis, 2008). For instance, according to Chu et al. (2007), from 1990 to 2000 new web sites have been developed improving the quality of user interaction. In the first phase of this period, the web sites were utilized to deliver tourism information such as advertising aimed at promoting tourism attractions. Afterwards, new

technologies have increased the potentiality of the web sites, by combining interactive functions, which include more

### **The use and impact of Information and communication technology in the hospitality industry**

According to DiPietro (2010), the lodging industry has, historically, distributed information through print-based media such as brochures, travel planners, or regional guides, and received reservations by mail, phone, and fax. More recently, hotel rooms have been made accessible for booking through global distribution systems (GDS) and through direct access to hotels using central reservation systems (CRS). However, such technologies have been inadequate as customers have traditionally not had access to these systems and travel intermediaries have experienced difficulty and delay in finding and booking appropriate hotels, whereas hotels have experienced high administrative costs attracting and processing bookings from customers. The emergence of new ICTs presents new opportunities to make these processes more accessible and more efficient (Buhalis, 2003). Some suggests that the traditional marketplace interaction is being replaced by a marketspace transaction (Rayport and Sviokla, 1995; Bitner, et al, 2000). In this context, e-mail technology is an example of marketspace interactions in which no interpersonal contact is required between the buyer and seller during the process of creating the service outcome.

E-mail offers a promising tool to help marketers keep in touch with their customers on a regular basis at low cost (Merisavo and Raulas, 2004). The benefits of an active marketer are described in considerable detail in the customer relationship management (CRM) literature, which suggests that marketers could enhance customer loyalty by being active and in regular contact with their customers (see, e.g. O'Brien and Jones, 1995; Brondmo, 2000; Hansotia, 2002; Osarenkhoe and Bennani, 2007). In spite of these potential roles of e-mail marketing for building and maintaining customer loyalty, it has only recently started to gain importance in comparative marketing literature and CRM strategies. This is also noted by Reichheld and Schefter (2000, cited from Merisavo and Raulas 2004), who discuss how marketers should concentrate attention on retailing rather than attracting customers on the Internet. Sigala (2003) observes that many studies have found no significant relationships between productivity and ICT.

A methodology for assessing Information and communication technology (ICT) productivity impact proposed by Sigala (2003) tested on a dataset of three star hotels in the UK overcome these shortcomings. Sigala's findings revealed that productivity gains do not accrue from ICT investments per se, but rather from the full exploitation of its networking and informalisation capabilities. Martin's (2004) study of E-innovation and Internet impacts on UK hospitality firms looks at six cases in the hospitality sector. Martin's study suggests that the current narrow focus on business growth or on technology alone seen in current initiatives may miss owners such as those who took up the Net for social and personal reasons but developed business uses alongside them. Where targets are set for increases in tourism, it is recommended in Martin's (2004) study that the Internet might play a part in developing such growth, if integrated and applied to the context of hospitality firms. Collins, et al (2003), on the other hand, study of the tourist enterprise in the European hotel sector and their utilization of the Internet and their perception of online learning systems aim to demonstrate that ICTs can enable them to improve their inventory management, strengthen their marketing and communication strategies and develop their internal business processes. Collins et al (2004) survey demonstrates that small and medium sized tourist firms in European hotel sector are not utilizing ICT in their businesses to its full potential. They primarily see the Internet as a mechanism for promoting their hotels rather than for inter-, intra-organizational and e-commerce purposes.

It can be deduced from the preceding discussion that Information and communication technology (ICT) improves the quality of customer-oriented, personalized service, allows the delivery of e-service and enhances customer relationships (Newell, 2000; and Wang, 2010). Some questions such as the relationship between the client and the supplier emerge due to the integration of Internet in company strategies. Because of Websites and the e-mail use, some researchers have reservations about the lack of physical and direct contact between the service provider and his customer. Quite a few authors agree that the Internet has transformed marketing in the hospitality industry (Murphy et al., 1996). It challenges the traditional way of doing business in which customers are served either face to face and/or over the telephone. It allows one-to-one interaction, offers electronic services to customers (Reichhel and Shefter, 2000) and makes online relationship possible (Grönross, 2000; Wang and Wang, 2010).

### **How the Internet Helps the Hotel Industry**

The rapid advancement of technology affects practically every industry, and the hotel and service industry is not exempt from this (Sahadev and Islam, 2005; Kim et al., 2011). Additionally, previous studies show that the firms providing EDI service were offering more services to their customers than firms not providing EDI service (Rogers et al. 1993; Sawabini, 2001; Ngai and Gunasekaran, 2004; Parasuraman et al. 2005; Leonard and Clemons Davis, 2006). With global and local hotel brands turning to the World Wide Web in order to boost sales and facilitate customer relations, it is easy to see how the industry is evolving along with the Internet (Shiels et al., 2003; Patano and Tavernise, 2009). Social networking sites, led by the Facebook phenomenon, are proving to be more and more important for not only hotels but for other businesses as well (Egger and Buhalis, 2008; Bornhorst et al., 2010). With the prevalence and influence of user-generated content such as reviews and other forms of feedback, hotels get the benefit of plugging by way of word of mouth (Lo et al., 2010). Maintaining relationships with previous clients also becomes easier to handle with a variety of online tools at the hotels' disposal (Lo et al., 2010; Osarenkhoe & Bennani, 2011). There are also web sites dedicated to bringing travel services and accommodations straight to the consumers' monitors whether it is through standard personal computer access or through the exponentially growing number of mobile phone internet users (Patano and Naccarato, 2010; Kim et al, 2011). There are also other utility web sites that aid consumers by providing aggregate information, reviews and feedback from numerous sources (Osarenkhoe & Bennani, 2011). Just how big is the impact of online booking for the hotel industry?

According to Van Hoof et al. (1999), the Internet is a major opportunity for the lodging industry, particularly when it comes to marketing and selling room nights. In 1994, Grönross underlined the importance of interaction in the marketing relationship. Internet can increase the interaction phenomenon between suppliers and their customers (Zettelmeyer, 2000; Alba and al., 1997; Hoffman and Novak, 1996). As an effective medium for the relationship between guests and hoteliers, it can improve pre and after sales service and enhance customer relationships (Newell, 2000; Wang and Wang, 2010). It has become the most used tool (Ramsey, 2001). Its potential as a means of making reservations is remarkable (Lo et al., 2010; Cheng 2011). The World Wide Web changes the way consumers plan and purchase travel products and services (Bamford and Xystouri, 2005). More and more people make reservations online and travel seems to be a typical service category sold on the Internet. In the U.S.A, as well as in the European Union, travel services seem to be the most purchased item on the Web (Learmounth, 2000; Yelkur and DaCosta, 2001). To enhance these key success factors in the hotel industry, some authors believe that hoteliers should invest heavily in more technology focusing on guest services (Siguaw et al.,

2000). Frey et al. (2002) postulate that hoteliers should first focus on basic Internet tools such as the e-mail. The latter is strategically important for the hospitality industry (Sainaghi, 2010; Kim et al. 2011) because first, it enables marketers to experiment various messages, altering the offer or segmentation to improve outcomes and results (Ramsey, 2001). Secondly, compared to conventional direct marketing reply time that can take several weeks, 80% of e-mail messages are answered within a few days (Van Hoof, 1999).

### **Conceptual definition and hypothesis**

A synthesis of extant literature presented above shows that integration of information and communications technology (ICT) in business has revolutionized relationships within organizations and those between and among organizations and individuals (Lee et al 2011). Specifically, the use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs (see Dewett and Jones, 2001; Zheng Zhou et al., 2005). In today's highly competitive markets the use of information and communication technologies (ICTs) by organizations (e.g., LAN, WAN, ERP, CRM, new social technologies such as instant messaging, online chat, blogs, face book, twitter, etc) appears to be an imperative for reducing the uncertainties surrounding production and administrative processes (Dewett & Jones, 2001) and, consequently, for sustaining competitive advantage.

Three primary processes (Lee et al. 2011) are enhanced in e-business: **Production processes**, which include procurement, ordering and replenishment of stocks; processing of payments; electronic links with suppliers; and production control processes, among others; **Customer-focused processes**, which include promotional and marketing efforts, selling over the Internet, processing of customers' purchase orders and payments, and customer support, among others; and **Internal management processes**, which include employee services, training, internal information-sharing, video-conferencing, and recruiting. Electronic applications enhance information flow between production and sales forces to improve sales force productivity. Workgroup communications and electronic publishing of internal business information are likewise made more efficient.

In the emerging global economy, e-commerce and e-business have increasingly become a necessary component of business strategy and a strong catalyst for economic development (Suh and Boggs, 2011; Mporfu and Watkins-Mathys, 2011). Thus the integration of information and communications technology (ICT) in business has revolutionized relationships within organizations and those between and among organizations and individuals (Devaraj and Kohli, 2003; Lee et al 2011). Specifically, the use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs (see Dewett and Jones, 2001; Zheng Zhou et al., 2005). While some use e-commerce and e-business interchangeably, they are distinct concepts. In e-commerce, information and communications technology (ICT) is used in inter-business or inter-organizational transactions (transactions between and among firms/organizations) and in business-to-consumer transactions (transactions between firms/organizations and individuals). In e-business, on the other hand, ICT is used to enhance one's business. It includes any process that a business organization (either a for-profit, governmental or non-profit entity) conducts over a computer-mediated network.

ICT clearly represents the most significant competitive method in the Hospitality Industry throughout the 1990s and beyond (Olsen, 1996). In addition, as transactional costs continue to rise, hotels will need to determine which of the technologies used to develop reservation and distribution channels are the most profitable for them and how they can yield the best results by using these channels. O'Connor and Frew (2002) underlined that electronic distribution channels

available to hotels have increased dramatically in recent years. While there are multiple channels; some are obviously minor in terms of their impact and potentials. Therefore, selecting the appropriate distribution channels is vital for success, and important if hotel firms want to increase top-line revenues and control overheads.

Increasing competition has pressurized hoteliers into adopting the technology in U.S. (Siguaw et al., 2000), Hong Kong (Lo, 2010), Taiwanese (Chen, 2007b), Thailand (Sahadev and Islam, 2005 a&b), Australian (Van Hoof, 1999), UK (Sigala, 2003) luxury class hotels. Frey et al. (2002) found in their research that e-service is more effective in higher-rated Swiss, Austrian and Italian hotels. Hotels in France, particularly luxury class hotels, should therefore make better use of e-mailing and should provide their customers with a high-quality and professional e-service. Responsiveness is the most likely first step in providing this quality e-service using the Internet/e-mail. Hence the following hypotheses:

**H1:** E-mail responsiveness is proportional to the number of stars of hotels, the more stars they have the quicker they respond.

**H2:** The response richness has a significance impact on the response time.

## RESEARCH METHODOLOGY

Data collection process encompasses three steps: firstly, some hotels located in France were identified on the Internet. Secondly, hotels that have “.com”, “.fr” or “.net” in the domain name of their e-mail addresses and those having their own Domain Name Server (DNS<sup>12</sup>) were browsed. Finally, the replies received within a two-month period were analyzed. A population of hotels with an e-mail address on the French Tourism Websites was selected. Exhaustive samples of 240 hotels located in France constituted the target group. The hotels have operations in 120 cities in France. Majority of the hotels in the sample were of two-star category (Table 2). The second largest hotel category was three-star category. They both accounted for 86% of the overall target population. Also the limited number (around 4%) of one star hotel was noted. E-mails with an attached booking request were sent to four, three, two and one star hotels. The mail was written in French. They were asked about room availability and prices for two adults and two children (16 and 10 years old) for one week in July, as well as local tourist attractions and excursion possibilities and their prices. The e-mails were sent to the selected hotels. The Bcc<sup>13</sup> function enabled us to send multiple e-mails simultaneously while masking this mass mailing for recipients. E-mails that failed to arrive due to wrong addresses or to any other problem were not re-sent.

Hotel Category	1 star	2 star	3 star	4 star	Not specified	Total sent
France	4 %	62%	24%	6 %	4%	100 %

Table 2: Sample breakdown of hotel categories

<sup>12</sup> For example, the DNS included in [www.reims-ms.fr](http://www.reims-ms.fr) Website address is “reims-ms”. This one is the property of Reims Management School. While in [www.wanadoo.fr/company](http://www.wanadoo.fr/company) Website, the DNS is “wanadoo”, which belongs to France Telecom.

<sup>13</sup> Blind carbon copy



The e-mails replied were followed-up over two-month period. On a weekly basis, the received e-mails were analyzed one by one and the information included in them was recorded into a database.

## RESEARCH FINDINGS AND ANALYSIS

As far as errors are concerned, globally 10% of the sent e-mails were returned due to a wrong address. Compared to the entire sample (240), 107 hotels replied the delivered e-mails. More than one in two hotels belongs to the two-star category (Table 3). This shows the domination of this class. It was also noted for this category that the return rate almost corresponded to that of the e-mails sent.

Hotels Category	1 star	2 stars	3 stars	4 stars	Not specified	Total replies
France	3 %	55 %	3 1%	7 %	4%	100 %

Table 3: Hotel replies of hotel categories

Among the replies, one star and four-star hotels were under-represented. It also appeared that only few hotels did not mention their category (around 4%). 66% of the hotel replies were received within a week (Table 4). Two and three-star categories are over-represented (55% and 31%) while one star (3%), four star (7%) are under-represented (Table 3). Analysis of total replies in one day (36) (Table 5), shows that almost 47% (17/36) of two-star hotels, almost 39% (14/36) of three-star hotels and only 5% (2/36) of one and four-star hotels reply in one day.

	1 star	2 stars	3 stars	4 stars	Not specified	Replies/ period
1 day	6 %	46%	3 9%	6 %	3%	30%
2 days		70%	2 4%		6%	15%
3 days		66%	1 7%	17%		5%
4 days		80%	2 0%			5%
5 days				100%		1%
6 days		67%	33%			3%
7 days		100 %				2%
< 4 hours	2 %	71%	1 4%	9 %	4%	39%

Replies/ category	3 %	58%	2 7%	9 %	3%	66%
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Table 4: e-mail replies within a seven-day response time period.

Note that 71% of two-star hotels react in less than four-hour (Table 4). Also only 2% of one star hotel replied within four-hour time period. **These results show evidence that the hypothesis that higher category hotels in France show better responsiveness than the lower category ones is not confirmed. This hypothesis should thus be rejected even if the four-star hotels panel is under-represented in the global sample.** Above all, both the two-star and the three-star hotels (to a lesser extent) appear to reply promptly to the e-mails received from customers. **This could be because of the acute competition within the market segment covered by these categories. The higher category hotels probably assume that their customers belong to the business segment that doesn't use e-mails to make reservations. Rooms are more likely to be booked by secretaries over the telephone.**

On the other hand, five binominal variables relating to e-mail responses were created. These variables (room availability, nature of service (half board, full board), local tourist attractions, price of the additional activities, and forward to web) were coded yes or no and classified into one factor: response richness. The results indicate that more than 93% of hotels provided information about their availability, while only 37, 4% specify the nature of service offered (half board or full board). Few hotels (29,9 %) provided activity description, and 28% provided information relating to forwarding to the Web. Only five hotels provided information about the price of the extra activities. In sum, almost 48% of hotels provided information regarding forward to web.

	1 star	2 stars	3 stars	4 stars	Not specified	Replies/ period	
1 day	2	17	4	2	1	36	
2 days		1 2	4		1	17	
3 days		4	1	1		6	
4 days		5	1			6	
5 days				1		1	
6 days		2	1			3	
7 days		2				2	
< 4 hours	1	32	6	3	2	45	
Replies/ category	3	79	8	2	8	9	137

Table 5: e-mail replies within seven-day and less than four-hour time period.

One-way ANOVA testing differences between means was used to assess the impact of the hotel category (independent variable) on response time (dependent variable) among hotels in France. The results of ANOVA analysis are presented in Table 6. They indicate that no differences were found for response time. Hotel category does not have a significant impact on response time (the value is more than 0.05). However, the results in Table 7 suggest a significant impact of the response richness on response time ( $p < 0.05$ ).

	F ratio	P prob	Significance
Response time	.84 3	.501	Insignificant

Table 6: One – way ANOVA between hotel category and response time

	F ratio	P prob	Significance
Response time	4.1 68	.044	Significant

Table 7: One – way ANOVA between response richness and response time

## ANALYSIS

Our findings shed light on the use of e-mails at customer contact points in hotels in France. It found significant dissimilarity in responsiveness across hotels categories located in France. A study conducted by Murphy, et al (2006) which draws on diffusion of innovations and Configurational theories to investigate how website features and email responses by Swiss hotels (classified into clusters on the basis of their website features) reflect evolving Internet adoption. The study confirms that Internet adoption evolves from static to dynamic use, as organizations add website features and provide quality responses to customer e-mails. However, findings differ from the study of Swiss hotels conducted by Frey and al. (2002); and Murphy et al. (2006) in Switzerland. While these previous studies found that highly rated hotel category have a high adoption level of technology-based service encounter tools, thus e-mail usage, they also found that hotels failed to give much concern to improving customer service. Contrary to previous findings, our findings show opposite results for the lower categories, mainly two and three star hotels.

According to our findings, the low level of responsiveness to e-mail technology (an example of market space interactions in which no interpersonal contact is required between the buyer and seller during the process of creating the service outcome) is demonstrated by hotel of higher categories included in our sample is surprising. There seem to be anomalies in our findings especially when the findings by Rogers, et al (1993); Parasuraman, et al (2005) are taken into consideration. They found that firms providing electronic data interchange (EDI) services and technology-based service encounter tools to their customers were found to be better able to accommodate selected customers' requests than firms not providing EDI services and technology-based service encounter tools. Firms providing technology-based service encounter possibilities appear to be more flexible and more responsive to customer requests. This view is in agreement with viewpoints by Rogers et al (1993); Sawabini (2001); Ngai and Gunasekaran (2004); Leonard and Clemons Davis (2006). Technology-based service encounter tools offer significant potential

for helping firms to gain competitive advantage and enhance customer responsiveness (Leonard and Clemons Davis (2006). In contrast to previous studies, our findings show low level of responsiveness to e-mail technology by hotels of higher category. A possible explanation to why our findings are inconsistent with extant findings is that those who patronise five star hotels or hotels of higher categories belong to a higher income stratum. Consequently, they may have direct telephone contacts with the hotel when checking for availability. Moreover, their secretaries who usually contact the hotels via telephone instead of via e-mails.

The insufficient e-service that we experienced with high category hotels in France when e-mailing a typical room-booking request could be explained, by their lack of interest in the Internet/e-mail user market segment. These findings seem to be in line with that reported in Sahadev and Islam (2005) that the factors that influence a hotel's propensity to adopt ICTs are broadly divided into location-related and firm-related. The findings also reconcile with the idea shared in extant literature (Meyronin, 2004) that electronic intermediation tends to "impoverish" service relations, insomuch as the technological interface can by no means replace the wealth of human interactions on which the creation of value and differentiation of services are based. The objectives that can be expected from the use of e-mailing - a concrete outline of e-service- in the hotel industry have to be formulated in terms of good communication, fine responsiveness, high-quality information and competitiveness.

Our findings in France are probably culturally grounded. Elsewhere, the use of the ICT in the lodging industry is growing exponentially and this enables hotels to reconsider the way they are doing business (Wang and Wang, 2010). Although the lodging sector overall has been slow to use ICT as compared to other industry sectors (Bamford and Xystouri, 2005) many hotel managers are becoming increasingly aware of the potential distribution, promotion, and interactive marketing advantages of technology. ICT offers several advantages for hotels of all sizes (DiPietro and Wang, 2010). One of the advantages is increased effectiveness due to cost reduction and revenue growth. Another advantage is higher quality customer relationships due to the possibility of personal contact services and dialogue with the customer (Wang & Wang, 2010). For example, customers can answer questions about their personal preferences for rooms, and based on this information, a customer receives services at the hotel that are adapted to his/her preferences.

## **CONCLUDING REMARKS**

This paper has many limitations. Some of them are that our research objective is too narrow and the analysis and conclusion has been done through evaluation of response time of an e-mail of room booking request only. Moreover, we are aware that ICT is a much broader topic, but we have focused mainly on electronic communication/interaction tool (e-mailing) which does not require interpersonal buyer-seller interaction in the contact point. Despite these limitations, there is consensus in extant literature that the speed of response to enquiries from current and potential customers is most likely a prelude to providing good quality technology-based buyer-seller interactions to create service outcomes. E-mail is not an exception.

Another major weakness of this study is the sampling and survey. However, the main contributions of this study are its treatment of relevant literature. A considerable literature review has been done with research rigor. A further contribution is that approach taken in the paper encompasses reviewing the relevant literature and focusing on the key themes most important for future research on hospitality industry. The basic premise of this paper is that there are large variations in its use across hotels categories. This paper studies these dissimilarities on the basis of an e-mailing action that encompasses sending a typical room-booking request to French hotels.

It analyses the response time to see how promptly hoteliers reply; which hotels categories (one-star, two-star, three-star, and four-star) make use of e-mailing to answer their customers rapidly. It is highlighted in the theoretical and conceptual development section presented earlier in this paper that e-mail has altered sales practices and provided hotels with the opportunity to differentiate themselves from competitors. This change has driven hoteliers to use e-mail features efficiently for the benefit of their guests and their business. However, our findings, presented and analyzed in the previous sections, show that there are significant dissimilarities in the response time when using e-mails to communicate with customers.

That notwithstanding, responsiveness is most likely the first step in providing quality e-service using the Internet/e-mail. One of the major concepts in customer relationship management is speed at which firms respond to questions and problems during the service encounter (Osarenkhoe and bennani, 2007). Customer relationship management (CRM) and direct marketing literatures (e.g. O'Brien and Jones, 1995; Brondmo, 2000; Hansotia, 2002; Osarenkhoe and Bennani, 2007) suggest that regular contact with customers help marketers enhance customer loyalty. Direct mail is used to cross-and up-sell, to increase customers purchasing frequency, and to induce customers to respond and to become involved in a dialogue (Merisavo and Raulas 2004).

Services marketing and management literature widely acknowledge that keeping current customers and developing relationships with new ones is a key business strategy (Piercy, 1995 cited in Bamford and Xystouri, 2005). The growing sophistication of consumers does represent an ongoing challenge to all manner of service organizations (Bamford and Xystouri, 2005).

## **MANAGERIAL AND THEORETICAL IMPLICATIONS**

The implications of this study for business practice and research are relatively many and straightforward:

1) The importance of people in relationship building cannot be emphasized. According to Donaldson and O'Toole (2009), People are the glue that holds relationships together; People are intelligent assets; Part of collaborative competency; Unique relationship asset; Many staff, many levels and Communication and information provision. It must be recognized that relationships are social structures in which people interact across organizational boundaries. People provide the channel through and by which the atmosphere of the relationship is shaped. This is an area ripe for research as there is very little academic material published. There is plenty of material on internal marketing but little from the perspective of the social structure of a relationships or marketing with people rather than to them;

2) Technology, particularly information and communication technology (ICT), is becoming an important strategic asset for hospitality organizations to improve their organizational performance and strategic competitiveness. As a result, there is a growing significance of the role of technology in enhancing a hospitality organization's competitive advantage, and thus contributing to the success of the organization (Wang and Wang, 2010). As a matter of fact, ICT use in the hospitality industry has been changing at a speed faster than at any other time in history. As the younger generations become more adept at the use of technology, they want to bring that into their lodging and dining experiences. The decision to adopt and use new technology or technology systems has become so important that many hospitality organizations are

transforming their corporate or organization structure to include functions and positions such as creating a technology;

3) It is now generally agreed (Bamford and Xystouri, 2005; Zhang et al 2009; Dwyer et al 2009; Bornhorst, 2010; Egger and Buhalis, 2008; Chu, 2007) that ICTs are the single greatest force driving change in the hotel industry and will continue to have dramatic and sweeping implications on how hotels conduct business in the future. Hotels are expected to position themselves strongly on the internet to take advantage of its distribution capabilities such as reach, content dissemination, feedback collection, interactivity, and one-to-one marketing. Further, current trends indicate that this greater involvement in IT by the hotel industry will increasingly encompass customer-centric approaches to capitalize on the cost structure and long-term potential of the internet while at the same time differentiating products and building lasting value propositions. For many hospitality organizations, technological advances are at the vanguard of opportunity, yet they represent one of management's biggest challenges. Adopting and using new technology systems and processes entails complicated decision making that requires insights and inputs from strong research initiatives and organizational commitment;

While this study is exploratory, it provides a valuable foundation for further work. For example, there is a need to further analyze the cross-cultural differences of the global travel market. Mueller et al. (2003) found that Irish and American consumers have a different perception of service encounters. In addition, as found by Prebensen et al. (2003), consumers also differ globally due to their individuality and ethnic background, which is an important direction for future research. For example, German immigrants in America may differ in terms of their consumption behaviours due to their ethnic background.

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## **An evaluation of communication strategies employed for malaria eradication among antenatal women in Enugu metropolis, Enugu state**

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*This study is targeted at evaluating the effectiveness of present communication strategies for eradicating the incidence of malaria among antenatal women in Enugu State of Nigeria by encouraging them to sleep under Insecticide Treated Nets each night. The focus is to determine if messages on malaria eradication sufficiently empowers the audience by addressing the critical questions on their mind and thereby enhancing their understanding of and compliance to the message. Using the survey method, a sample of antenatal women in Enugu metropolis was studied. The result proved that participation and integrated communication rather than awareness and increased knowledge, have, proved effective in behavior change. There should be increased interactive programs involving the target population and the relevant stakeholders at every stage of the Roll Back Malaria programme. This could assist Governmental/Non-governmental Organisations, Development Agencies, Program Communication Officers in the design of holistic and sustainable programmes.*

### **BACKGROUND OF THE STUDY**

Recent health reports indicate that over a million people still die of malaria each year mostly in Africa and other less developed parts of the world. This becomes worrisome in the light of the fact that majority of these are women and children. Hence global investments to combat this dreaded disease in the context of the drive to achieve Millennium Development Goals (MDGs) number five by 2015 maybe unrealistic. Ene (2009) emphasized sensitization of African countries on the challenges in meeting these goals. However this paper main focus is in evaluating the potentials of effective communication in the campaign for realization of these goals especially in the health sector. Communication strategies already in use are evaluated with a view at developing newer and sharper strategies that will enhance Africa's chances of meeting the global deadline of ultimate victory over the malaria onslaught.

Linking poverty with the prevalence of malaria in Africa and other less developed countries (LDCs) has remained the focal point for many years now. This probably may have informed the thinking of Kinoti(1994) when he remarked among other things that:

*Poverty means disease, disease means pain, inability to work and death; Africa's economy has been plagued by malaria and other numerous diseases, most important are infectious diseases which are both curable and preventable which has greatly depleted the continent. Malaria has caused untold suffering in Africa and claims something like a million African lives a year. It was once an important disease in the warmer parts of Europe and USA, but improvement in living conditions led to its disappearance.*

Back home in Nigeria malaria constitutes a serious health challenge in the country. It is responsible for 60% outpatient visit to health facilities, 30% childhood deaths, 25% of death in children under one year and 11% of maternal deaths (4,500 die annually). In Nigeria, a child will be sick of malaria between 2 and 4 times in one year, and 70% of pregnant women suffer from malaria, contributing to maternal anemia, low birth weight, still birth, abortion and other pregnancy related complications. The financial loss due to malaria annually is estimated at

about 132bn Naira in form of treatment cost, prevention, and loss of man-hours, among others. In 2005 a comparison of malaria with other common causes of morbidity per 10,000 cases, malaria alone accounted for 1,858 cases while diarrhea, pneumonia and measles together accounted for 1,245 cases. This underscores the need for concerted efforts by all stakeholders towards its eradication (NMCP, 2005).

Since it was discovered that sleeping under bed nets treated with insecticides can greatly reduce deaths from malaria, especially among children, (WHO, 2009) yet a reasonable number of people in Enugu still do not sleep under ITNs. It then calls for vigorous use of communication to drive policy and behavior changes around the issues of the malaria eradication programme. This is also informed by the ever changing environment and societal taste and hence 'new communications approach' to meet the present challenges. This perhaps may have informed the PATHS Model Programme Communication Package for malaria eradication in Enugu State. It prescribed a totally new communication approach which sees audience in Nigeria as having been swamped by a "message culture" This in the context of health, tends to tell people what is good for them, and generally has been rather didactic in nature (Egbo, 2010)

This is akin to Reddy (1979) conduit metaphor, 'top- to- bottom ' or the 'hypodermic needle' approaches which are the oldest communication models have become over emphasized, and have long given way to prevalent audience interest and circumstances. According to Egbo the new communication pattern should be a departure from the usual information or enlightenment approaches to more democratic, participatory, bottom- to- top approach .However, Participatory Communication should be integrated to all stages of a development project/programme.

## **DEFINITIONS**

### **The Agenda Setting Theory**

This theory tries to explain the effects of mass communication on society, it describes the powerful influence of the media, the ability to state and define what issues are important in society. Mc Combs and Shaw (1970) observed that "the mass media force attention on certain issues. "The mass media controls what the society should think about, know about and have feelings about. An issue is important as long as it continuously reported in the media and ceases to be relevant the moment media attention is removed. Mc Comb's and Shaw later (1972 &, 1976) wrote that "audiences not only learn about public issues and other matters through the media, they also learn how much importance to attach, to an issue or topic through the media and that the potential of the topic to affect many or few in the audience called "issue threshold has a bearing on "Agenda building" Today, issues that constitute public matters are driven by the content of the media, it is what the media houses choose to emphasize that becomes the topic of discussion everywhere. Hence a successful campaign on malaria eradication will depend on a sustained exposure to the media.

**Malaria:** Malaria has been defined as an infectious disease caused by single-celled parasite of genus plasmodium. Female Anopheles mosquito transmits these parasites from one person to another in their bites. It is characterized by periodic bouts of high fever and severe chills and serious cases can result in deaths if left untreated

**Communication:** Communication could be understood as the process of shearing ideas, information and messages with others in a particular time and place, or the transmission of messages to a mass scattered audience. This is in-line with the Laswellan maxim of who says what to whom and with what effect It also includes writing and talking as well as non verbal communication (such as facial expressions, body language or gestures) visual communication (the use of images or pictures, such as painting or photography, video or film) and electronic

communication (telephone, electronic mail, cable television or satellite broadcast). There is also the non –electronic small group and interpersonal communication (Berelson, 1948).

**Strategy:** This has been defined as a plan of action designed to achieve a particular goal. Strategy links ends ways and means. The ends of a strategy are the objectives or goals to be achieved. The means include the multitude of resources devoted to achievement of those objectives; the ways refer to the methods of organizing and employing those resources to achieve stated objectives. Ways are at the heart of strategy formulation. Arguing and balancing ends, ways, and means is the strategic calculation. An on-going process, a way of thinking about a business, of assessing the strengths, diagnosing its weaknesses and envisioning its possibilities (Pugh, 2011).

**Communication Strategy:** A communication strategy outlines a process for communicating and sharing information on project benefits and facts to target audience and stake holders. It is a tool used for promoting the awareness, knowledge and understanding of a project. Typical communication strategy should clearly describe the following: The intended audience members; The settings, channels, and activities that should be used to reach them; The image that program communication should convey; The action intended audience members should take as a result of exposure to your communication; A compelling benefit they will receive by taking the action; Support that convince them they will experience the action; Support that convince them they will experience the benefit(Egbo, 2010).

## **THEORETICAL FRAMEWORK**

This section examines some theories and models rudimentary to the design of effective communication strategies for the eradication of malaria, a typical modern day development project. As has been noted earlier a good communication strategy is an imperative to the attainment of the objectives of any development project. This paper is our humble contribution to the urgent need for health communication experts to engage in critical or strategic thinking to ensure effective strategic communication best practices for the fight against malaria and other sustainable human development oriented communication objectives.

This study which centers mainly on communication strategies will try to evaluate media effects over the years as a way of understanding some fundamental underpinnings that have informed the development of the communication environment over the years. Theories of media effect have evolved over the years from the Powerful Effect Model (hypodermic needle) to the Two- Step Flow and the Multi-Step Flow (Okenwa, 2002). The powerful Effect Model which could also be referred to as Power theories are those theories that emphasize and reflect the strength of the media and the people’s perception of the strength of the media. The earliest thinking on media effects were products largely from the prevailing theoretical development, in the field of sociology and psychology, from the sociological perspectives that emerged toward the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century perceived the society as highly individualistic or atomized with social ties among individuals almost completely absent. The individual members of the society were left vulnerable to powerful influences from without and had little or no tie with others in the society, there were, therefore, no mediating influences in his social system. It was the later recognition of these mediating influences that led to the modification of the all powerful media theory.

### **Hypodermic Needle/Bullet Theory.**

This theory states that communication has direct, immediate, powerful effects, of a uniform nature on those who pay attention to their content. It assumes that a media message reached every eye

and ear in the same way and brought about the same changes of thought and behaviour in the entire audience. The media are all powerful all conquering to a public with a preconceived notion of powerful media. Critics of this theory maintain that even though communication may have a powerful effect on the audience but several other societal factors exerted considerable influence also. Pertinent questions arise from deep reflection on the bullet theory: Do people respond spontaneously to media stimuli?

If they do, what in the media compels them to respond spontaneously? If they do, what salient characteristics in the individual propel spontaneous response? Are there situations where people do not respond spontaneously to media stimuli? What are some of the preventable factors that affect response patterns (Okenwa, 2002)? How we react to these issues will, to a large extent determine our understanding of this theory in the light of this study on evaluation of communication strategies for malaria eradication.

### **The Agenda Setting Theory**

This theory tries to explain the effects of mass communication on society, it describes the powerful influence of the media, the ability to state and define what issues are important in society. Mc Combs and Shaw (1970) observed that “the mass media force attention on certain issues. “The mass media controls what the society should think about, know about and have feelings about. An issue is important as long as it continuously reported in the media and ceases to be relevant the moment media attention is removed.

### **Uses and Gratification Theory**

This gratification theory was developed in the 1940s when researchers became interested in the way people engaged in various forms of media behaviours. It is a theory that is audience-centered, asking what people do with the media. It states that audience derives level of satisfaction/reward from using the media. As Lazarsfeld and Stanton (1949) noted “... several typologies of mass media motives and functions ‘ have been formulated to conceptualize the seeking of gratifications as variable that intervene before media effects. Recent studies have revealed that a variety of audience gratifications are related to a wide range of media effects. The uses and gratification theory reveals that people seek out and use the media to gain several gratifications. Individuals use the media, in how long they use the media and for what reasons. As a result, differences exist in the way individuals and group reacts to media messages. The individual’s differences theory explains the phenomenon. The uses and gratification stresses the various needs the media satisfies for the masses hence media content should carefully satisfy those needs

### **Uses and Gratification theory and Message Reception**

However a set of studies carried out by J.G. Blumler and Elihu Katz (1974) resulted in the emergence of the Uses and Gratification Theory. This theory states as has been noted earlier that in any communication situation the individual audience member or message receiver usually has specific information needs and continually exposes him mainly to communication to satisfy those needs. This means that people’s communication behaviour is seriously affected or Influenced by those needs. The ability of a message to satisfy these needs it is believed will determine the individual exposure to the message in the first place (Blumler& Katz, 1974).The Uses and Gratification Theory as one of the basic theoretical frame works of this study will guide our evaluation of communication strategies that will effectively eradicate malaria from Enugu State. This may have informed Nwosu (1986) submission, when he noted that Katz, Blumler and Gurevitch summarized the Uses and Gratification theory very masterly in one of their studies when they stated that the social and psychological origins of individual needs generate or lead to certain expectation from communication sources, media or channels of communication, and that

these in turn lead to different patterns of media exposure which results in different need gratification and other consequences.

Related to the Uses and Gratification Theory as noted earlier are some older communication concepts which include selective exposure, selective perception, which see the audience as active and capable of either selection or rejection of media information according to their psychological, physical, social and other backgrounds. Underscoring the importance of the knowledge of the Uses and Gratification theory to the success of any communication objective is important to realization of overall development goals. Therefore, in organizing and executing publicity and public enlightenment campaigns for Enugu State dwellers in Nigeria or elsewhere and to elicit the desired response both qualitatively and quantitatively, message must be designed to emphasize the different gains to be derived by the audience by doing what is prescribed. This realization should guide the overall communication strategy (Nwosu, 1986). Individual members of the society are not passive but have different needs and purposes which shape their communication behaviour and response to mass media information. These needs of the individual vary from person to person and by extension from community to community. Hence, there are needs that are peculiar to certain communities and to locate these communities; the communicator needs careful audience segmentation. Also related here is the health belief model (HBM) which was developed in the 1950's by social psychologist to help explain and predict health behaviours by focusing on the attitudes and beliefs of individuals. The model which is an aspect of the change theories stipulates that an individual's health behaviour is guided by the following: Perceived susceptibility – one's opinion of chances of getting the disease; Perceived severity – One's opinion of a condition or of how serious a condition and its consequences; Perceived benefits – One's opinion of the efficacy of the advised action to reduce risk or seriousness of impact; Perceived Barriers-One's opinion of the tangle and psychological cost of the advised action; Demographic, socio-psychological and structural variables that affect an individual's perception and thus indirectly influence health related behavior; Cues to action – events, either bodily (example a health symptom) or environments (example a media message) that motivate people to take action; Self efficacy-confidence in one's ability to take action ([http://www. Comminit.com](http://www.Comminit.com)).

## **MALARIA ERADICATION CAMPAIGN IN ENUGU STATE: OVERVIEW OF COMMUNICATION STRATEGIES**

Enugu State belongs to the South-East Geo-Political zone of Nigeria created on 27<sup>th</sup> August, 1991 with capital in Enugu. The various campaigns on Malaria eradication in the state appears not to have impacted on the malaria situation in the state informing the objectives of this study. The messages of the campaigns have not resulted in expected behaviour change. The recommended actions are not taken either in prevention or cure of the dreaded disease. This underscores the need for a critical evaluation of the messages and other communication strategies employed to deliver the campaigns on malaria eradication Despite the provisions of the Roll Back Malaria (RBM) Programme, and other interventions, yet the burden of malaria still persists. Reasons have been adduced for this which include:

Most people of risk of malaria are unaware of the interventions; They are unable to afford them; The interventions are inaccessible. As could be seen from above, lack of education, information and access to effective interventions are currently restricting the success of the Roll Back Malaria (RBM) Programme especially amongst the poor (Nwamuo, 2008). The new communication vision focuses on health communication which involves the study and use of communication strategies to inform and influence individual and community decisions that enhance health

## METHODOLOGY

This study employed structured questionnaire as the instrument for the collection of primary data. The primary data collected for this study was through the use of questionnaire designed on a five point liker scale (strongly disagree 1, disagree 2, don't know 3, agree 4, strongly agree 5) administered to women that came for antenatal care at ESUT Teaching Hospital, Park Lane.. The study captured the communication component of current malaria eradication strategies in Enugu State. It tried to evaluate malaria eradication messages against the audience knowledge of the objectives of current malaria eradication campaigns. Two hundred copies of structured questionnaires were administered to the sample population by hand. The questionnaire in this study was delivered by hand to the respondents personally at the antenatal clinic and this resulted in the high return rate. This was collated and analyzed to provide quantitative information. The researcher chose Enugu metropolis which is the capital city and hence the main hub of life in the state. The choice of Enugu metropolis was also informed by the fact that it has a cosmopolitan status. Most of the media outfits in the state are located within the city for obvious reasons. Hence with available electric power supply and the status of the residents it is believed that their consumption of media products will be higher than in the hinterland.

**Data analysis:** Data obtained were arranged in percentages and frequency tables. This is for easy understanding of the distribution and to aid comparison and enhance understanding of the phenomenon. Each distribution table analyzes data generated from one or more research questions of this study. Analysis of the data is by the use of five point likert scale decision value. Data generated from the likert scale calculated value will be compared with decision value to see whether the opinions fall on the affirmative or negative side, thereby assisting to also test the hypotheses. Calculated values that are greater than the decision values confirm affirmative answers while those that fall below confirm that answers are on the negative. Similarly a calculated value that is greater than decision value will lead to rejection of null hypothesis while calculated value that is less than decision value will lead to acceptance of null hypothesis were applicable.

Formulae for calculated value-  $\frac{TFX}{FX}$

FX

Where F= Frequency

TF= Total Frequency

X = Scale Point

FX = Product of frequency and Scale Point

TFX = Total of Product + Scale Point

## DEMOGRAPHICAL DATA (Key – FX x 100)

Age			Marital Status			Highest Education Level			Occupation (f)			Residence
X	F	%	X	F	%	X	F	%	X	F	%	X
15-20	-		Married	200	100%	FSLC	20	10%	Student	40	20%	Coal camp
20-30	80	40%	Widowed			WASC	20	10%	Trader	20	10%	Iva Valley



31-40	120	60%	Divorced	OND/NCE	80	40%	Civil servants	140	70%	GRA	
41-45			Single	BSC/HND	60	30%	Private Business			Ogui	
				MA/PhD			Others			Asata	
46 – 50			TFX	200	100%	Others	20	10%		Uwani	
51 – 55											Others
TFX –	200	100%							TFX –	200-100%	TFX

**TFX**

Effects of Communication strategies for malaria eradication data is presented under the five point linkert scale below.

Strong Disagree 1, Disagree 2, Don't know 3, Agree 4, Strongly Agree 5 (Represented as x)

(Key – TFX x 100)

Understanding of media message			Messages address questions on audience minds			Participatory approach of media messages			Bottom-up pattern of message design			Educativeness of messages on malaria			Media Messages prompt recommended action			Messages Considers key stake holders		
X	FX	TFX	X	FX	TFX	X	F	FX	X	F	FX	X	F	FX	X	F	FX	X	F	FX
1			1	20	20	1	20	20	1	40	40	1			1	40	40	1	40	40
2			2	20	40	2	40	80	2	20	40	2	40	80	2	40	80	2	20	40
3			3	80	240	3	40	120	3	20	120	3			3	20	60	3	40	120
4	120	480	4	80	320	4	80	320	4	60	240	4	120	480	4	60	240	4	80	320
5	<u>80</u>	<u>400</u>	5			5	<u>20</u>	<u>100</u>	5	<u>40</u>	<u>200</u>	5	<u>40</u>	<u>200</u>	5	<u>40</u>	<u>200</u>	5	<u>20</u>	<u>100</u>
FX	200	880				200	620		200	640	200	760		200	760	200	760	200	620	
TFX <u>880</u>			TFX - <u>620</u>			TFX <u>620</u>			TFX <u>640</u>			TFX <u>760</u>			TFX <u>760</u>			TFX <u>620</u>		
200			200			200			200			200			200			200		
CV = 4.4			CV = 3.1			CV = 3.1			CV = 3.2			CV = 3.8			CV = 3.8			CV = 3.1		

### TEST OF HYPOTHESES

This sections tests the hypotheses, Ho<sub>1</sub> to Ho<sub>7</sub>

**Test of Hypothesis H<sub>01</sub>:** From table 4.3.1 above proves that media messages on malaria are clearly understood by the target audience, it shows that since CV of the messages are 4.4 > 3, which is the DV. Hence null hypothesis is rejected.

**Test of Hypothesis H<sub>02</sub>:** The results from above table 4.3.2 shows CV of 3.1 showing that the rejects null hypothesis (1) hence the calculated value is 3.1 and CV > DV of 3 or that the media messages address the critical questions on the mind of the target audience. Therefore, the null hypothesis is rejected.

**Test of Hypothesis H<sub>03</sub>:** The calculated value (3.1) in this case is higher than the decision value (3). Hence we also reject the null hypothesis that media message on malaria eradication are not participatory in approach.

**Test of Hypothesis H<sub>04</sub>:** The result from the above table shows that the calculated value is 3.2 which is higher than decision value of 3.0. This means that the null hypothesis is rejected.

**Test of Hypothesis H<sub>05</sub>:** The calculated value from table 4.3.5 above is 3.8, which exceed the decision value of 3.0. This means that the null hypothesis is hereby rejected.

**Test of Hypothesis H0<sub>6</sub>:** Table 4.3.6 shows that the calculated value, 3.1, is higher than 3.0, which is the decision value. Hence the null hypothesis, which says that media messages do not prompt people to take the recommended actions to combat malaria, is hereby rejected.

**Test of Hypothesis H0<sub>7</sub>:** Since the calculated value from table 4.3.7 is 3.1, which is higher than the decision value of 3.0, the null hypothesis, which says that media messages on malaria do not consider the key stakeholders stands, rejected.

## **SUMMARY**

The major findings of this research work include the following: Antenatal women in Enugu metropolis do understand current media messages on malaria eradication, which also addresses the critical questions on their minds. The study also shows that the media messages on malaria provide education and the needed illumination to the target audience on the malaria eradication campaign. Furthermore, the media messages on malaria employ the participatory method. In other words the former approach of programme communication has given way to bottom to top, interactive process of message design and delivery. The message design process also considers the key stakeholders. This makes message more reliable, understandable and effective in bringing about the desired behavior change.

## **CONCLUSION**

The result of this study is in tandem with the on-going transition from behavior change communication to strategic behavioural communication (SBC) which currently drives health communication and the total transformation process of the health sector. It emphasized participation and inclusion of beneficiaries and local people in programme design and implementation for this special group, pregnant women who are particularly vulnerable to attacks and other complications caused by malaria. However, there is need for consistency, media messages currently provide the needed education for the target population but programme designers should ensure that the new communication is integrated with programme goals at all intervention stages. The ultimate aim is to ensure that intervention gets to the people that really need it. There is also room for SMART assessment in quantifiable monitoring and evaluation making use of baseline data measuring impact of the intervention to ensure safe motherhood and health for residents of Enugu metropolis.

## **RECOMMENDATIONS**

There is need for more time and attention for interactive programmes on radio and television involving the target population engaging the relevant stake holders to discuss all challenges related to the malaria burden. The long lasting insecticide treated nets (LLITNs) should be distributed freely and regularly to cater for the poor who cannot afford to buy the nets. The ACT drugs should be made available and affordable to address the target population and others living in poverty. There is need to dis-abuse the minds of the people against their mis-conception that LLITNs are harmful. Hence there is need for continuous education of the people on how to handle the LLITNs. It should be legislation making it mandatory for pregnant women to sleep under insecticide treated nets each night. The above challenges are the focus of the new communication strategy which aims at moving service providers and beneficiary populations closer to the desired behaviours

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## **Retailing and Consumer Behavior**

## **Researching into Symbolic Consumption among Black Africans in the UK: How far are we from the Milestone?**

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*Evidence suggests that developed societies such as the United Kingdom are becoming increasingly multicultural by the day. Accordingly, the diversity of consumption in these societies becomes pronounced in the form of residents' age, gender, income, educational qualifications, and ethnicity. Hence, researchers and practitioners are increasingly challenged to unravel the complexities associated with these consumption practices. While many of the associated issues have been addressed, some in considerable detail such that takes the existing diversity into account, some are yet to be fully explored. One of such areas in the literature where palpable gaps still exist is Consumers' symbolic consumption in the UK. This basically involves making purchase decisions based on factors other than the physical benefits of such offerings. A recent meticulous search of the literature indicates that, this issue is yet to be captured in relation to Black Africans resident in the UK. Therefore, this paper which is an eclectic review of the literature uncovers this taken-for-granted research opportunity, opens academic discourse in this direction/ and calls for empirical studies that could address this issue robustly. It also shows both the theoretical and managerial implications associated with heeding this call.*

### **Introduction**

Ethnic minority group has attracted increased research attention recently (Nwankwo and Lindridge, 1998; Ram and Smallbone, 2001; Nwankwo *et al.*, 2010; Gbadamosi, 2012) especially when considered from the perspective of their commercial activities in developed countries like the UK, US, Canada, France and many others. Using United Kingdom (UK) as an example, it has been estimated that the population of those categorised as non-white in England and Wales has increased by 2.5 million between 2001 and 2009 (ONS, 2011). The implication of this trend in population for commercial activities in the country is huge in terms of scale and significance. Evidence suggests that they engage in entrepreneurship (Ram and Smallbone, 2001; Blankson and Omar, 2002; Nwankwo and Gbadamosi, 2009; Davidson *et al.*, 2010) into various sectors and professions such as estate agency, retailing, hairdressing, IT, consultancy, and Miscellaneous services. From another perspective, they consume goods and services which have significant cultural implications in the society. For instance, several topics that revolve around their acculturation in the foreign cultural environment feature prominently in the marketing literature (Jamal, 1998; Gbadamosi, 2012). Hence, research about ethnic minority group in the UK appears well developed. However, a meticulous search of the literature shows that considerable lacunae still exist in the literature and are yet to be fully unpacked for proper understanding of this study area. One of these which constitutes the focus of this paper is their symbolic consumption. Although, there are many ethnic minority groups in the UK, given the need to have a more focused research target, this article relates specifically to symbolic consumption among Black Africans in this society, uncovers the paucity of academic materials on this issue, and provides directions for future studies on the topic. This is especially deemed appropriate as many studies (see for example; Moschis *et al.*, 1997; Nwankwo and Lindridge, 1998; Lin, 2002; Honkanen *et al.*, 2004; Galguera *et al.*, 2006; He and Mukherjee, 2007; Gbadamosi, 2009) strongly suggest the need to give adequate consideration to diversity that exist among consumers as a result of a variety of factors such as their age, gender, income, educational status, and ethnicity.

## **Theoretical Background**

### ***Consumer Symbolic Consumption Behaviour: Theoretical Underpinning***

There is an agreement among authors that Consumer Behaviour as a field of study is a very intriguing subject area. Basically, this is because it deals with the study of what people buy, when they buy them, where they buy them and how often they buy them. Over the years, a good number of consumer behavior theories and models that explain the buying process and factors that influence buying decisions have been developed. Among the commonly cited of these postulations include Nicosia (1966), Engel, Kollatt and Blackwell (1968) and the Howard-Sheth (1969). Essentially, the core argument in these models especially as posited by Engel *et al.* (1968; 1978) is that consumer decision process could be explained as consisting of a number of stages which are Need recognition, Information Search, Evaluation of alternatives, Purchase/Choice, and Post purchase evaluation. It has also been established that as buyers pass through these stages, especially when considering which alternative products or services to buy, they are influenced by various factors including culture, social class, family, income, learning, attitude, personality and self-concept (Solomon *et al.*, 2009; Gbadamosi, *et al.*, 2009; Kotler and Armstrong, 2010; Schiffman *et al.*, 2010). This brings in the relevance of symbolic consumption.

Essentially, symbolic consumption indicates that consumers do not make their consumption decisions exclusively for products' utilities but also for their symbolic meanings (Belk, 1988; Elliott and Wattanasuwan, 1998). Stated differently, in symbolic consumption, the focus of the purchase of the product goes beyond the tangible or physical attributes, and could be related to a number of other factors such as for social reasons, belongingness, enhancement and maintenance of self-esteem (Levy, 1959; Banister and Hogg, 2004). Hence, it is possible for consumers to use their choices of products and specific brands to create and communicate certain identity about themselves. As argued by Thompson (1995:210) quoted in Elliott and Wattanasuwan (1998: 132), self could be seen "as a symbolic project, which the individual must actively construct out of available symbolic materials, materials which 'the individual weaves into a coherent account of who he or she is, a narrative of self-identity'...". Indeed, the seminal work of Belk (1988) titled *Possessions and the extended self* contributes significantly to the opening of academic discourse on this subject. He argues that consumers' possessions could be conceptualised as major parts of their extended selves, which supports the contention that consumers are what they own. Elliott (1995; 1997) contends that the functions of the symbolic meanings of products operate in two directions which are the social symbolism and self-symbolism. In his view, while the former is outward in constructing the social word, the latter is inward towards the construction of our self-identity (Elliott, 1997). Indeed, symbolic consumption constitutes a rich research area with potential to enrich our understanding of how people use brands to communicate and socialize in various settings. Nevertheless, there is dearth of studies that specifically examine this topic in relation to Black Africans in the UK which makes exploring it in this context a worthy research endeavour.

Essentially, the reasoning in symbolic consumption has been widely applied into different contexts in the literature. Amine and Lazzaoui (2011) relate this phenomenon to modern retailing systems in Morocco. Their findings show the existence of differences in shopping strategies based on social classes, and that differences in social classes generate singular symbolic representations of shopping experiences. According to them, 'the upper and middle classes that

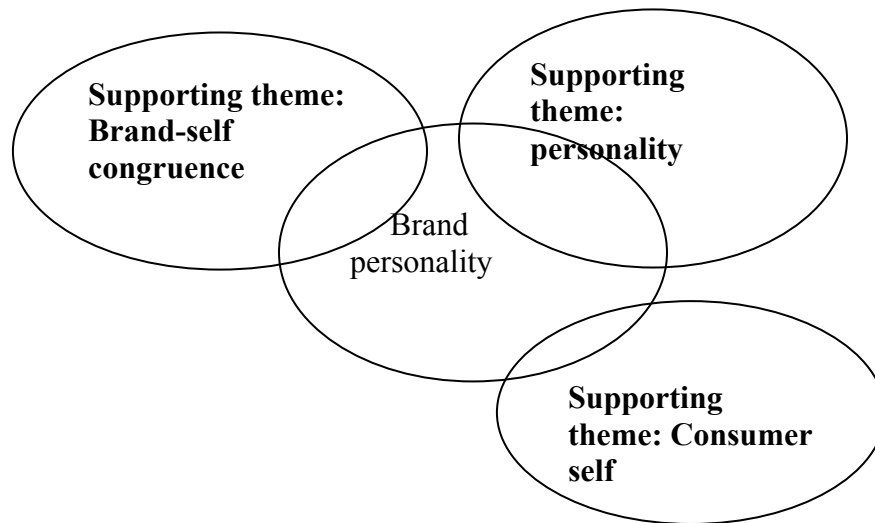


have converted early to modern retail network will have (symbolically) seized and made it their main source of supply...Through the frequentation of modern retail banners,...[they] are obviously looking to differentiate themselves from those belonging to lower classes who still frequenting traditional stores...' (p.576). From a different perspective, Woodruffe-Burton and Wakenshaw (2011) specifically looked into consumers' grocery shopping and consumption experiences. The study revealed a number of quite interesting findings in respect of the participants who are all women. It suggests that grocery shopping can constitute a sub-role and status in the family as woman/wife/mother. The study shows further that shopping activities are not just idiosyncratic behaviour but also have social and cultural meanings for consumers. In a study titled symbolic double-coding: the case of Australian pubs, Pettigrew (2006) moves the discussion of symbolic meaning away from the usual consumer goods context to location. He explores the symbolic meaning that is resident in the Australian pub. The study suggests that symbolic meanings could be associated with consumption locations and there is possibility that individuals could perceive contradictory meanings to the same location. Among other milieu where symbolic consumption has been studied include counterfeit luxury goods (Perez *et al.*, 2010); and fashion industry (Banister and Hogg, 2004). The key findings in Perez *et al.*'s (2010) study is that, consumers of counterfeit luxury products view themselves as smart decision makers, and their self-esteem enhanced. Essentially, three main symbolic consumption related themes emerged from this study. The first is that these consumers see themselves as efficient in the use of their resources to achieve specific goals. Secondly, they have fun through adventure, enjoyment, and desire to experience risk. Finally, the authors found that these consumers perceive inner benefit in fooling others, expecting not to be caught about the legitimacy of the product they use. The key message in this study is in tune with the core finding of Banister and Hogg (2004) whose study revolves around fashion consumption by young professionals. They explore how young adult consumers use the negative symbolic meanings associated with fashion products as a key to identity negotiation, which involves balancing autonomy and affiliation. The study suggests that consumers sometimes make reference to undesired end state to maintain self-esteem. For instance, in their study, participants used symbolic features of clothing to satisfy two opposing functions, namely approach and avoidance. According to them, approach relates to social identification with groups while avoidance relates to distinction from less desirable groups. This is not surprising as it has been shown that there are three main actors that influence consumers' preference for clothing (Raunio, 1982; Moody *et al.*, 2010). One of these factors are identified to be physical features which encapsulate factors like shape and size, thermal conform, and visual feature. The remaining two are identified to be consumers' self-appearance and associative reasons and memories. It is evident from these viewpoints that consumers buy and use clothes for social circumstances such as for affiliation, thereby corroborating the existence of symbolic consumption ((Raunio, 1982; Moody *et al.*, 2010; Gbadamosi, 2012). While these findings and postulations have strengthened the literature specifically on symbolic consumption and on consumer behaviour in general, the extent to which they apply to Black Africans in the UK remains yet to be explored in the literature. Given the cultural values and differences that exist among consumers, it will amount to undue generalisation to dismiss the need for a research on this topic into this ethnic group based on the assumption that existing findings could provide marketers with accurate information about symbolic consumption of this ethnic group.

### **Symbolic Consumption and Brand Personality: Integrative Perspectives**

In the marketing parlance, the link between symbolic consumption and brand personality is noted to be considerable as the key assumption in brand personality is that consumers' need for identity and self-expression drive them in relation to their choice of brands (Heding *et al.*, 2009).

**Figure 1: Supporting themes of the brand personality**



**Source:** (Heding *et al.*, 2009; p122).

The emergence of brand personality is one of the factors that prove the relationship between Consumer Behaviour and Psychology as fields of study as it evidently shows the amalgamation of personality, as a concept often widely discussed in psychology and consumer decision making process (see Figure 1). According to Schiffman *et al.* (2010: 136), personality can be defined as ‘inner psychological characteristics that both determine and reflect how a person responds to his or her environment’. This is consistent with another perspective which explains it as inner properties of the person and the characteristics that make him or her unique (Dibb and Simkin, 2009). Examples of these are authoritarianism, ambitiousness, competitiveness, gregariousness, extroversion and introversion (Dibb and Simkin, 2009). Although this term is strongly rooted in psychology, marketers are becoming increasingly aware that consumers’ personality could influence their consumption behaviour. Meanwhile, branding is a popular strategy in the marketing of goods and services. It involves using a name, term, sign, symbol, or design, or a combination of these, to identify the maker or seller of a product or service (Kotler and Armstrong, 2012). Hence, brand names could be used by consumers in relation to equity and differentiation of competing products and firms in the marketplace (O’Cass and Lim, 2002; Jevons, 2005). It is therefore not surprising that the brand of a product is described as the lens through which the marketing activities of an organization are focused or through which consumers view the products and their marketers (Blythe, 2007). Accordingly, if these two key words are matched conceptually, brand personality could then be defined as ‘the set of human characteristics associated with a brand’ (Aaker, 1997: p. 347). According to Murase and Bojanic (2004), it serves as a complement to attributes, value, benefits, culture, and user to make the six levels of brand meaning. This emphasises the significance of this construct in how marketers communicate the bundle of benefits associated with their brand to their target audience.

**Figure 2: Dimensions of Brand Personality**

<b>BRAND PERSONALITY</b>	
<b>Sincerity</b>	<b>Down-to-earth, Honest, wholesome, Cheerful</b>
<b>Excited</b>	<b>Imaginative, Up-to-date</b>
<b>Competence</b>	<b>Successful</b>
<b>Sophistication</b>	<b>Upper class, Charming</b>
<b>Ruggedness</b>	<b>Outdoorsy, Tough</b>

**Source;** Adapted from Aaker, (1997: p.352)

Indeed, Aaker’s (1997) contribution to brand personality discourse – Dimensions of brand Personality - has been widely lauded. According to Heiding et al. (2004), it has stirred the pot and set new agendas. Aaker (1997) draws on the ‘Big Five’ human personality structure and develops a theoretical framework of the dimensions of brand personality. This research effort resulted in the Big Five major groupings of personality that consumers associate with brands shown in Figure 2 which she claims is reminiscent of the same way human beings have a distinct personality. Subsequently, it has been applied in many other related research efforts. For example, the term has been explored in relation to the brand preference of Business Schools (Opoku *et al.*, 2006), destination image (Hosany et al., 2007); wine (Boudreaux and Palmer, 2007); facial image and cosmetic usage (Guthrie, *et al.*, 2008), toothpaste (Thomas and Sekar, 2008), and fast food outlets (Gbadamosi *et al.*, 2011). Despite all of these, research efforts into applying this construct or symbolic consumption in relation to Black Africans in the UK have not been adequately evident in the marketing literature; hence this paper is positioned to expose this lacuna.

**Symbolic Consumption and Consumer Involvement: A Theoretical Overview**

As consumers make consumption decisions in relation to benefits derivable from the products such that transcends the physical associated benefits – symbolic consumption-, it is also apposite to explore how this relates to their involvement in such products. According to Kapferer and Laurent (1985: p.49), ‘involvement is an unobservable state of motivation, arousal or interest. It is evoked by a particular stimulus or situation and has drive properties. Its consequences are types of searching, information-processing and decision making’. This appears consistent with defining it as the perceived level of personal importance of interest that is evoked by a stimulus within a specific situation (Engel *et al.*, 1995), and the level of identification and personal relevance the purchase decision holds for the consumer (Robertson *et al.*, 1984). Originally, the concept was developed in marketing literature in relation to advertising and was first popularised by Krugman (1965). According to him, ‘by [involvement] we do not mean attention, interest, or excitement but the number of conscious “bridging experiences” connections, or personal references per minute that the viewer makes between his own life and the stimulus (p.355)’. Bringing all of these perspectives together, it is logical to state that consumer involvement relates to perceived personal importance and/or the interest consumers attach to the acquisition, consumption, and disposition of a product, a service, or an idea (Mowen and Minor, 1998; Celsi and Olson, 1988).

Given the meaning of involvement, it is believed that consumer involvement in an offering could be high or low (Ratchford, 1987; McWilliam, 1997) such that consumers with high involvement in a goal object would engage in information processing, problem solving, and cognitive activities towards reaching for a reasoned decision for some categories of goods and services (Kassarjian, 1981). On the other hand, those with low involvement in a product would be indifferent to the purchase and about the decision process. But one key question here is, what determines an individual consumer's level of interest in a product? A body of literature identifies these factors to be the characteristics of the consumer making the purchase, the physical characteristics of the stimulus, and the situation (Zaichkowsky, 1986; Engel *et al.*, 1995; Wells and Prensky (1996). This explanation makes the case for the study of symbolic consumption among Black Africans in the UK. This is because, their cultural experience, values, personality, lifestyle, and many other useful factors that could make their preferences for goods and services different from people outside this ethnic group are key in determining their involvement in a particular offering. Based on an up-to-date search of the literature which shows that no study has been conducted to specifically look at Symbolic consumption of Black Africans in British marketing environment, it is evident that the potential for researching into this topic for both theory and practice appear huge.

### **Summary and Conclusion**

More often than not, consumers' decisions to buy certain products, services or specific brands are based on reasons other than the physical attributes of such offerings such as purchases to boost self-esteem or social affiliation. Researchers argue that the individual is confronted with the challenge of search for self-identify, and exercises free will to create images of who and what she or he will like to be in the postmodern society (Elliot and Wattanasuwan, 1998). Consequently, consumers buy certain products because of their symbolic meanings and the roles that the brands play constantly towards helping them to achieve this goal in self-construction project. This underpins the notion of symbolic consumption.

Among the key constructs that are closely associated with symbolic consumption are brand personality and consumer involvement. While brand personality relates to how brands are regarded as having human personality such as imaginative, outgoing, soft-hearted, organised, and appreciative; consumer involvement describes the degree of personal relevance of the goal object such as brands to the consumer. The literature is replete with studies that examine each of these phenomena including symbolic consumption in considerable detail. In fact, these studies have enriched and extended understanding in consumer behaviour significantly. However, a review of the extant literature indicates a paucity of studies addressing this subject in relation to Black Africans in the UK. This is a pointer to the potential benefits associated with exploring the subject concerning this ethnic group in the society that is becoming increasingly multicultural by the day.

From a very broad perspective, while consumers are increasingly engaged in building their self-identity through consumption of goods and brands, there are various implications for marketers. Essentially, it is expected that this knowledge will be incorporated into various marketing programmes especially in the area of marketing communications strategy. It often provides directions to corporate organisations especially brand managers in knowing how to position their brands such that it will be seen as addressing all categories of needs to the consumer. However, given the diversity which exists among consumers, there is a limit to which marketers in the UK could do this presently, as existing studies that relate to symbolic consumption treat all consumers as homogenous with similar needs and preferences without giving due consideration to ethnicity. The argument in this article is that this assumption or approach has a significant limitation, hence

the need for empirical studies that address how Black Africans in the UK engage in symbolic consumption. Such studies will be significantly beneficial both from theoretical and managerial/practical standpoints. However, given that such research is almost non-existent, it is evident that we are still very far from robustly addressing this lacuna to update the relevant literature.

## **DIRECTIONS FOR FURTHER STUDIES**

Basically, this paper is positioned to expose the apparent lack of research specifically focusing on symbolic consumption of Black Africans in the UK. Accordingly, a number of possible avenues for research become apparent. For example, one promising avenue for future studies is to explore symbolic consumption of Black Africans in British marketing environment in relation to their different demographical variables such as gender, age, income, and educational qualifications. Besides, this topic could be explored in relation to different products. For instance, future studies could focus on any or a combination of some of the following questions. How would Black Africans women in the UK engage in symbolic consumption for clothing, cosmetic products, or food items? Would Black African Men and Women exhibit similar pattern of symbolic consumption for automobiles? What is Black African teenagers' worldview of their Symbolic Consumption? Would Old Black Africans resident in the UK be as keen as Young consumers in the same ethnic group in using consumption of brands to fulfill their social and esteem needs? Would symbolic consumption be relevant to Black Africans' acculturation about consumption of specific products in the British cultural milieu? Indeed, addressing these and other related questions could enrich our understanding of Symbolic consumption. Apart from this possible theoretical contribution, unpacking these issues has the potential to yield findings that could serve as valuable inputs which could go into marketers' strategic planning process for various marketing programmes. Indeed, extending the existing postulations to robustly capture the idiosyncrasies about consumption of Black Africans in the UK will be of great value in many ramifications.

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## **Tourism and Sustainable Development**

## **An assessment of the extent to which South African Hotels are environmentally responsible.**

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*Almost all business decisions involve social and environmental issues. The damaging effects of tourism on the environment are significant therefore they should receive attention. This paper sets out to investigate to what extent hotels follow environmental guidelines and to determine whether a correlation exists between their star rating and the implementation of environmentally responsible guidelines. A self-administered questionnaire was developed to collect data from 62 hotels in Gauteng. The data were analysed by using percentages and cross-tabulation. Results indicate that most hotels follow responsible environmental guidelines. There is a positive correlation between star ratings of hotels and environmental responsibility.*

### **INTRODUCTION**

Environmental responsibility is a much debated and important issue. Over many years the impact of man on the environment has been the topic of numerous forums and the extent of the damage has been well researched. However the way in which the South African Hospitality industry interacts with the environment, has not been addressed adequately. Companies are compelled to evaluate the impact that their activities have on the environment. Renewed efforts to consider environmental responsibility are driven by the global threat of climate change, diminishing natural resources and significant socio-economic inequalities (Frey & George, 2010). By its very nature, the tourism industry is dependent on environmental resources such as the natural beauty and hospitality offered by the places and communities in which it operates. Tourism activities are inextricably linked to environmental impacts. Misconceptions in the past stating that the tourism industry is not a major role player in environmental decline, have led to the integration of responsible environmental considerations into tourism planning and development (Kasim, 2006). However, as damage inflicted by tourists is significant, the effects, should receive urgent attention. The tourism and hospitality industry has come under pressure to evaluate and manage its negative and positive impacts on the environment. Changes in the industry have, however, been slight.

Hotels have to contend with several environmental and social factors i.e. energy consumption, water consumption, waste production, waste water management, toxic chemical use and atmospheric contamination as well as purchasing/procurement and local community initiatives (Kasim, 2006). Inappropriate development and the destruction of natural habitat and a loss of wildlife (Davenport & Davenport, 2006; Page & Connell, 2006) are negative results. The tourism industry is one of the industries with the highest consumption of water in hotels, for golf courses, swimming pools and personal use by tourists (Sloan, 2009; Molina-Azorin *et al.*, 2009; Trung & Kumar, 2005; Keyser 2010). Air pollution (Cooper *et al.*, 2006), high energy consumption (Mensah, 2006), destruction of vegetation and high wastage (Mensah, 2006) constitute further evidence of ways in which tourists impact negatively on the environment.



Countless research projects have been conducted on ways in which the tourism industry can become more environmentally responsible. Water saving initiatives include low flush toilets (Sloan *et al.*, 2009), re-use of towels and linen (Mensah, 2006), low-flow shower heads (Molina-Azorin *et al.*, 2009) as well as regularly checks for leaks and recycling of grey water for gardening, washing and flushing toilets (Molina-Azorin *et al.*, 2009; Tsogo Sun Holdings, 2010; Sun International, 2011; Phumelela, 2010).

Recycling and lower wastage activities include avoiding non-essential photocopying (Mensah (2006), re-using paper and using soap from guestrooms for minor cleaning jobs (Trung & Kumar, 2005; Tsogo Sun Holdings, 2010).

The tourism industry should use energy sparingly (Sloan *et al.*, 2009; Molina-Arozin *et al.*, 2009), promote the use of energy from renewable sources such as solar power (Mensah, 2006), use daylight ( Trung & Kumar, 2005), energy-saving lighting (Sun International, 2011) and wind power (Sloane *et al.*, 2009; Dalton, 2008; Tsogo Sun Holdings, 2010). All forms of tourism that are conducive to the conserving of rare and precious resources should be encouraged. In Scandinavian hotels, the aim is to reduce the environmental footprint of the company itself as well as that of its co-operators (Bohsanowicz & Zientrara, 2008).

Although the environmental impact of tourism is viewed as being mainly negative, there are also positive aspects such as the conservation of historical buildings (Page & Connel, 2006; Keyser, 2010) and as a source of income for charities such as Operation Hunger (City Lodge, 2011), Reach for a Dream (Sun International, 2011) and World Wildlife foundation (City Lodge, 2011). Employees in the hospitality industry also do voluntary work (City Lodge, 2011).

Positive environmental involvement from the hospitality industry includes the protection of indigenous flora and fauna, the removal of invasive plants and re-introducing indigenous species such as fynbos that require little water to survive (Tsogo Sun Holdings, 2010). The involvement of the industry in the protection of wildlife (City Lodge, 2011) is an indication of its positive contribution to environmental involvement. Formal training of staff in environmental responsibility enhances the positive image of the Hospitality Industry (Sun International, 2011).

Globally, the tourism industry has shown considerable growth over the years and there seems to be no limit. Internationally, the travel and tourism sector has emerged as one of the 21st century's critical drivers of economic growth, job creation and development of communities, regions and nations. The Tourism sector as a vital source of employment, revenue, investment, trade and unity, was recently identified as a powerful factor in the recovery from the global economic crisis (Government Communications and Information System ,2010). According to the United Nations World Tourism Organization (UNWTO) (UNWTO, 2006), international tourism arrivals exceeded 800 million for the first time in 2005. In comparison, the contribution of tourism in Africa is low, with only 5.6% of these arrivals being on the African continent. Although Africa's share is small, international tourism is important to Africa and is likely to grow in future (Mitchell&Ashley, 2006:4). "Tourism is recognized as one of the sectors with the most potential to contribute to the economic regeneration of the continent, particularly through the diversification of African economies, and generation of foreign exchange earnings" (New Partnership for Africa's Development, 2004).

According to the Tourism, Hospitality, Sport Education and Training Authority (THETA) tourism is the fastest growing industry in South Africa, contributing no less than 10% to the Gross Domestic Product (GDP) and comprising five main sectors - accommodation, food and

beverage services, recreation, entertainment as well as transportation and travel services. Tourism is regarded as one of the key economic sectors with excellent potential for growth. About 9,6 million foreign tourists visited South Africa in 2008, a 5,5% increase of the 9,1 million foreigners who visited the country in 2007. The contribution of tourism to South Africa's GDP is estimated to have increased from R162,9 billion in 2007 to R194,5 billion in 2008. The estimated number of jobs created directly and indirectly in the economy through tourism increased by 10% from 946 300 in 2007 to 1 041 700 in 2008 (GCIS, 2010). Tourism has the potential to fuel the South African economy by creating jobs, reducing unemployment and improving the quality of life of all South Africans (Kleynhans, 2011).

The Department of Tourism aims to head the national Government's brief to ensure responsible tourism growth and development by promoting and expanding tourism, thereby increasing job and entrepreneurial opportunities and encouraging meaningful participation by previously disadvantaged individuals (GCIS,2010).

Currently, almost all business decisions involve social and environmental issues. Most organizations highlight the impact of social and environmental issues in their annual reports and on their Web sites (Kleynhans, 2011). A code of ethics has to exist in firms, who are expected to go beyond their profit-orientated activities and add to the well-being of the community. This situation becomes crucial when an industry forms a close relationship with environments and societies. The society stands to benefit by these activities both economically and socially when activities are carried out by tourism firms (Nicolau, 2008). Tourism does not merely add economic value, but also contributes environmentally, culturally and socially through the improvement in individual wellbeing and development (Higgins-Desbiolles, 2006)

Management in the South African Hospitality industry often follows the Responsible Tourism Guidelines (2003) while companies adhere to a code of ethics for efficient energy and water management, as prescribed by the World Tourism Organisation. Environmental responsibility in the South African Hospitality industry comprises actions related to:

- sustainable water and energy practices, such as energy-saving globes, recycled grey water;
- preservation and conservation of the environment such as protection of indigenous flora and fauna, removal of invasive alien vegetation; and
- formal training in environmental responsibility (Kleynhans, 2011).

Tourism and hospitality companies are aware of their responsibility towards the environment because they accept it as part of their Corporate Social Responsibility (CSR). CSR comprises different dimensions such as environment, community, diversity, employee relations and human rights (Dawkins & Ngunjiri, 2008). When reporting on CSR activities, environment is a category that features prominently. Holcomb *et al.* (2007) report on conflicting evidence that emerged from their study on CSR in hotel companies. Different methods of water and energy saving in operation and companies task their employees to become involved in these ventures. On the other hand, the UK gambling industry pays little attention to environmental issues in their CSR report (Jones *et al.*, 2009). An increase in CSR activity will benefit hotels, because both the value of the company and profitability will increase (Holcomb *et al.*,2010). Most companies report that their CSR efforts to improve their image certainly pay dividends (Jenkins & Yakovelva, 2005; Brammer & Pavelin, 2006). The main reason that many hotels implement CSR programmes, is to improve their image (BonillaPriego, Najear & Font, 2011). Reporting on all CSR activities is commendable, but it is an open question whether CSR is solely a management responsibility, or whether all company employees should be aware of, committed to or involved

in these activities (Kleynhans, 2011:). Pressure to be seen as socially responsible could lead to companies overstating their environmental commitment (Bohdanowicz, 2006).

Responsible tourism comprises responsibility to the environment through its sustainable use; responsibility to involve local communities in the tourism industry; responsibility for the safety and security of visitors', and responsibility to government, employees, employers, unions and local communities (DEAT, 1996:4). Responsible tourism should also be to enable local communities to enjoy a better quality of life through increased socio-economic benefits and improved management of natural resources.

South Africa's White Paper on Tourism (1996) refers specifically to the concept of "responsible tourism". One of the key elements is the assessment and monitoring of environmental, social and economic effects of tourism developments. Avoiding waste and over-consumption, and promoting the sustainable use of local resources are other key elements (Spenceley, 2008).

Responsible holidaymakers do not want to enjoy themselves at the expense of those who live in these resorts. Tourists tend to favour companies that follow ethical practices. Tourists are more likely to book a holiday with a company that has a written code guaranteeing good working conditions, protecting the environment and supporting local charities (Tearfund, 2002). Commitment to quality and environmental practices enhance hotel performance (Tari *et al.*, 2009). Clearly the public are becoming increasingly concerned about the way in which hotel companies manage environmental issues (Bohdanowicz *et al.*, 2011).

Generally, very few responsible tourism initiatives are undertaken by the hotel sector (Van der Merwe & Wocke, 2007). It is realised that most establishments do not practice responsible tourism and follow the guidelines in the course of operations. Tourism can be sustainable only if it is developed and maintained in an area (a community environment) in such a manner and on such a scale, that it can remain viable over an indefinite period. Furthermore, it should not degrade or alter the environment (human and physical) in which it exists to such a degree that it inhibits the successful development and wellbeing of other activities and processes (Page & Connell, 2006).

The purpose of this paper is to investigate the implementation of environmental guidelines to ensure responsible tourism in the hotel sector and to determine whether a correlation exists between the star rating of hotels and the implementation of environmentally responsible guidelines.

## **METHODOLOGY**

Research was conducted in a social context and was based on a quantitative approach. A self administered questionnaire was developed to collect the primary data. The target population consisted of eighty-nine (N = 89) hotels, which according to the Tourism Grading Council for South Africa, TGCSA (2010), are situated in Gauteng Province. The saturated sampling technique was used and all the one-, two-, three-, four- and five-star hotels in the Gauteng Province were identified. The respondents who participated in the study comprised hotel staff members who are tasked with applying responsible tourism guidelines in their day-to-day operations. A total of 62 hotels (n=62) responded to the questionnaire, representing a 69.6 per cent response rate. Secondary data was collected from perusal of relevant literature in recent publications including textbooks, journals, government publications and white papers on the subject.

Development of the questionnaire

The first section consisted of closed questions to determine the hotel demographics. In the second section a Lickert scale was used to determine the extent to which the respondents agreed with a set of statements regarding responsible tourism in the hotels. Section three sought to determine how highly the guidelines were rated in their operations and a Lickert scale was also used. The questionnaire was developed and tested during a pilot study to determine the feasibility of the questionnaire.

#### Data collection

Data were collected using a self-administered questionnaire. The questionnaire was distributed to the 89 hotels used in the study and collected after some time to allow respondents time to complete the questionnaire. A total of 62 hotels returned completed questionnaires.

#### Data analysis

The questionnaire contained open-ended questions and ranking-scale questions. The data were analysed using percentages, cross-tabulation as well as factor analysis. The statistical software package used to analyse the data is Stata 11 as well as SPSS. Frequency tables were generated to describe categorical variables. The Pearson chi-square test was used to test association between the two categorical variables. Factor analysis was employed in the data reduction. The interpretation was performed at a 95% confidence limit. This analysis was verified by the statistical services at the Tshwane University of Technology.

## RESULTS

Table 1 indicates the environmental position of the hotels. Table 1 shows that it is very important to hotels to measure the quantity of water and manage consumption. A total of 98.38% of the respondents note that this is a very important guideline. It is not only a way to save a precious commodity, namely water, but it also reduces cost thereby increasing profits for the establishments. Re-use of towels and linen by guests that is often mentioned as a way to save water (Mensah, 2006) is an established practice in European countries (Bohdanowicz, 2006). Hotels need to manage their water consumption optimally by introducing water-saving measures (Kasim, 2006; Molina-Azorin *et al.*, 2009).

All the respondents measure electricity consumption and have introduced energy-saving measures to achieve a 5% reduction per annum over three years. Energy conservation has a direct impact on the total cost of a hotel (Kasim, 2006; Molina-Azorin *et al.*, 2009). The use of energy-efficient light bulbs is a popular environment friendly practice (Mensah, 2006; Bohdanowicz, 2006) and the use of motion sensors can save a considerable amount of money (Leondakis, 2008).

Hotels express different views on whether they encourage behaviour that respects our natural heritage and has a low impact on it. A total of 24.19% of the respondents note that this is not important to them, while 19.35% are neutral. However, 56.45% of the respondents indicate that it is important to respect our natural heritage and to ensure minimal impact.

It is important to implement appropriate measures to reduce consumption of natural resources, generation of waste and incidence of pollution (64.51%). It is imperative to ensure that generation of waste is reduced at the hotels (58.06%). Approximately 47% of waste in hotels can be recycled and the financial benefits of managing solid waste could make it a worthwhile exercise (Kasim, 2006). However, recycling of waste is sometimes seen as an expensive exercise

and not as part of the core business of hotels (Mensah, 2006). As could be expected, Scandinavian hotels pay particular attention to waste sorting, whereas in Polish hotels waste is sorted, but then collected by one truck, that dumps sorted and non-sorted waste into a common container (Bohdanowicz, 2006).

Hotels in Gauteng typically do not use environmentally friendly vehicles. Some 85.48% of the respondents say that they do not consider environmentally friendly vehicles to be important. This attitude gives cause for concern.

It is not significant nor very important for hotels in Gauteng Province to suggest ways in which the hotels and their guests can assist in the conservation of our natural heritage, (58.06%). A total of 69.36% of the respondents co-operate suppliers to minimise the amount of material for packaging supplies.

**Table 1 Environmental position of responsible hotel practices**

	<b>Statement</b>	<b>Insigni ficant</b>	<b>Least significant</b>	<b>Neutral</b>	<b>Significant</b>	<b>Very significant</b>
1	Our hotel measures the quantity of water consumed and manages consumption and leakage with the aim of reducing water consumption by 5% per annum over 3 years.	0	1 = 1.61%	0	12 = 19.35%	49 = 79.03%
2	Our hotel measures electricity consumption and has introduced energy-saving measures to achieve 5% reduction in use per annum over three years.	0	0	0	35 = 56.45%	27 = 43.55%
3	Our hotel encourages tourist behaviour that respects our natural heritage and has a low impact upon it.	7 = 11.29%	8 = 12.90%	12 = 19.35%	23 = 37.10%	12 = 19.35%
4	Our hotel has installed appropriate technology to reduce consumption of natural resources, generation of waste and incidences of pollution	2 = 3.23%	6 = 9.68%	14 = 22.58%	28 = 45.16%	12 = 19.35%
5	Our hotel has percentage targets and time frames for the reduction of waste	2 = 3.23%	6 = 9.68%	18 = 29.03%	32 = 51.61%	4 = 6.45%
6	Our hotel has environmentally friendly vehicles	21 = 33.87%	32 = 51.61%	6 = 9.68%	2 = 3.23%	1 = 1.61%
7	Our hotel has implemented ways in which the hotel and its	12 = 19.35%	24 = 38.71%	11 = 17.74%	14 = 22.58%	1 = 1.61%

	guests can contribute to the conservation of our natural heritage.					
8	Our hotel works with suppliers to minimize the amount of packaging materials for supplies	0	2 = 3.23%	17 = 27.42%	41 = 66.13%	2 = 3.23%
9	Our hotel reduces “food miles” by using locally produced food	0	0	6 = 9.68%	54 = 87.10%	2 = 3.23%
10	Our hotel invests a portion of its profits in species conservation or environmental rehabilitation and management.	14 = 22.58%	21 = 33.87%	11 = 17.74%	16 = 25.81%	0

Reducing “food miles” by using locally produced food is very important to the majority of the hotels that participated in the study with 90.33% of the respondents showing that it is important to them. Only 9.68% are neutral. Purchasing local food products to decrease transport costs can be taken one step farther by purchasing products with lower environmental impact (Bohdanowicz, 2006).

The hotels that participated in the study show that it is not important to them to have a portion of their profits invested in species conservation or environmental rehabilitation and management, with 56.45% noting that this is insignificant. Hotel managers should be trained and become informed on the importance of environmental management (Molina-Azorin *et al.*, 2009; Leondakis, 2008). Training programmes could address two issues simultaneously, namely being environmental awareness and human resources development. Environmental awareness should become an integral part of employees’ life at work and at home (Bohdanowicz *et al.*, 2011).

**Table 2 Correlation of star rating and installation of appropriate technology to reduce consumption of natural resources, generation of waste and incidence of pollution**

Star rating	Insignificant	Least significant	Neutral	Significant	Very significant	Total
One star	33.33%	0%	33.33%	33.33%	0%	100%
Two star	33.33%	33.33%	33.33%	0%	0%	100%
Three star	0%	13.04%	30.43%	39.13%	17.39%	100%
Four star	0%	5.26%	21.05%	47.37%	26.32%	100%
Five star	0%	7.14%	7.14%	64.29%	21.43%	100%

P=0.029

Table 2 shows a P-value of 0.029. This value less of 0.05, indicates that the guideline has a correlation with the star rating of the hotels in the study. Installing appropriate technology to reduce consumption of natural resources, the generation of waste and incidence of pollution depends on the grading of the hotels. This issue is likely to be insignificant to a one-star hotel because it is a costly exercise, whereas for a four- or five- star hotel, it will be regarded as highly significant therefore it is more likely to install such technology. Ghanaian hotels report a similar correlation where a larger percentage of three- to five- star hotels implement environmental

management practices than those in the one-star category (Mnesah, 2006). According to Rodriquez and Cruz (2007) higher levels of social and environmental responsibility in hotels will increase their profit levels.

## CONCLUSIONS AND IMPLICATIONS

As environmental management has a significant influence on hotel performance, hotel managers should implement environmental practices to protect the environment and to sharpen the competitive edge of their establishments (Molina-Azorin *et al.*, 2009). The results show that most hotels in Gauteng follow responsible environmental guidelines and they incorporate some measures to reduce their water and energy consumption. Hotels have different perceptions on the importance of respect for our natural heritage. Reduction of waste is viewed as important by most hotels. The use of environmentally friendly vehicles is not an important issue. Most hotels in Gauteng do not have suggestions on how they and their guests can contribute to the conservation of our natural heritage. Locally produced food is purchased by most hotels. This study has shown that responsible tourism is a familiar concept in the hotel industry. Hotels are convinced that responsible tourism guidelines are important.

Awareness programmes could be presented to educate employees about being environmentally responsible. Every hotel should have a workable, responsible tourism policy in place. This will ensure a competitive advantage over other destinations and improve their market share. It is important that hotels manage their social and environmental responsibilities strategically. The survival of tourism depends on its ability to minimise the negative impacts on the environment.

### Limitations

A number of hotels were not interested in participating in the study. This is indicated by the smaller than expected sample size. Members of senior management were generally not keen to participate in the study and would delegate this activity to their junior staff. The findings of this research conducted in Gauteng Province cannot be generalized to the industry, because the study population is relatively small.

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## **Proposed Socio-Demographic Profile of the South African Hospitality Supervisor**

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*The hospitality industry is a unique industry as it comprises both a production and a service aspect. At the moment of service the employee of the hospitality establishment is reliant on his/her skills only and on the behaviour of the guest/customer with whom he/she is interacting to deliver service. Service rendered in the industry is performed primarily by the hospitality employee, therefore the success of the industry is dependent on the calibre of its employees. In the past the hospitality industry was fraught with issues such as long working hours and highly charged person-to-person interactions. Currently the hospitality industry is faced with a new challenge – the entrance of a new-generation employee, while employees born from two previous generations are still present. Profiling the hospitality supervisor and identifying specific competencies have thus become crucial as a hospitality supervisor is compelled by circumstance to manage a diverse workforce, furthermore the management style has to motivate and inspire employees with widely differing work-related values and beliefs. Supervisors in one of South Africa's largest hotel chains were chosen as the population from whom the socio-demographic data would be collected.*

### **INTRODUCTION**

South Africans refer to themselves as the “rainbow nation”. The term “rainbow nation” was coined by Nelson Mandela to describe the South African population/people that comprises diverse races, tribes, languages and religions. Although the population shares all the important attributes of the human species, biological and environmental differences serve to separate and distinguish the people as individuals and groups (Smit, Cronje, Brevis and Vrba, 2008).

The hospitality industry is unique due to the fact that in essence it comprises both a production and a service aspect. Services rendered by a hospitality organisation, such as a hotel, guest house or restaurant are primarily the responsibility of the hospitality employee. This means that the success of the hospitality industry will depend on the calibre of the employees in the industry. A further challenge with regard to the success of the above-mentioned industry is posed by how efficiently these employees are managed, to ensure that the organisation's objectives will indeed be achieved (Cheng and Brown, 1998).

A hospitality establishment is both labour and capital intensive. The efficiency of a service establishment such as a hotel is inextricably linked to the individual qualities of their employees (Lockyer and Schoarios, 2004). Choi, Woods and Murrman (2000) maintain that these establishments need to employ a variety of people, to meet and even exceed the guest's expectations. Furthermore, the perception of a guest in the hospitality industry with regard to

service quality is directly linked to the morale, motivation, knowledge, skills and authority of the employee (Lockyer and Schoarios, 2004). Yu and Miller (2004) assert that knowledge and skills required by present employees have become infinitely more complex.

## **BACKGROUND AND MOTIVATION**

### **The hospitality industry as a unique industry**

Over the years the hospitality industry increasingly had to contend with factors such as retention and staff turnover (Williams and Hunter, 1993) long working hours, intense people-to-people interactions and a poor reputation for long-term career opportunities (Charlton and Solnet, 2011). A continuing issue in the hospitality industry is to find a balance between customisation, this is where employees adapt their service to the changing guest/customer needs and wants, and the need for control, efficiency and standardisation to remain cost effective (Ogaard, Marnburg and Larsen, 2008).

A hotel that represents a service company sells a promise to the guest. A guest entering a hotel has no standard by which to judge the competence of the hotel staff. The guest can only trust that their expectations will be met in due course. The willingness to trust the organisation is borne out by prior experiences of the guest and the organisation's reputation. A guest's confidence in the product and service to be delivered by the organisation is the most precious asset of any hospitality organisation. Boosting the guest's confidence is not about making promises, but rather about fulfilling promises. When a service organisation such as a hotel or guesthouse loses the guest's confidence it forfeits its reputation for value and reliability (Berry, 1999).

A survey conducted by Accenture (Hugo, 2009), ranked the level of South Africa's service delivery as the lowest in the world. Accenture is a global company who assessed twenty two unspecified countries during this survey. South Africa fell way below when it came to soft skills such as business etiquette, service attitude of staff and customer care. Tourists know they will find airports, hotels and restaurants in South Africa, but whether the tourist/guest will rank the above-mentioned organisations as top establishments will depend on the levels of service.

Serving a guest is very different from manufacturing a product. To be of service to a guest, implies to ministering to someone's every need, through helping, giving, sharing and meeting requirements. Manufacturing a product or serving a guest demands different management principles and concepts. A manufactured product can be subjected to a quality check during the production process and rejected if any defect is detected. The customer will never know about or see the faulty product, whereas when a service is rendered there is no leeway. Delivery of unsatisfactory service inevitably leads to dissatisfied guests. The hospitality industry comprises of various organisations which offer guests courteous, professional food and beverage services as well as lodging (Ford and Heaton, 2000).

Management in hospitality service delivery systems requires relevant skills such as leadership and assertiveness. Immediate response is expected from management and employees to a variety of guest requests (Bowen and Ford, 2004). The influx of international visitors to South Africa each year, places additional demands on the management skills of employees to deliver the required level of service (Cray and Mallory, 1998 and Hugo, 2009). Hospitality organisations have to cope with guests as well as employees who are expected to interpret the actions and attitudes of one another when rendering service (Cray and Mallory, 1998). Lewis (1999) maintains that

successful hospitality organisations will be those organisations that have trained their staff to be culturally sensitive.

### **Generations in the Hospitality Industry workforce**

Understanding and embracing diversity in the workforce of the hospitality industry, is of utmost importance in an increasingly complex society today. Diversity refers to cultural as well as physical dimensions and embraces much more than just race, age, gender, physical abilities and qualities (Walker and Miller, 2010).

Internationalisation and demographic shifts in the hospitality industry have made management of multicultural employees a matter of major concern for the hospitality manager (Testa, 2007). Changing demographics in the population in America have compelled business establishments to re-evaluate how they recruit, hire and train their employees (Geddie and Jackson, 2002). South Africa is no exception. Changing demographic factors in the population and the workforce in the hospitality industry have become evident in recent years as the industry currently accommodates three generations of employees: Baby Boomers (born between 1945 – 1964), Generation X (born between 1965 – 1980) and the Generation Y's (Millennials) (born after 1980) (Yu and Miller, 2005).

The term generation can be defined as a group of people born at about the same time, that share birth years, age, location and specifically significant life events at critical development stages (Charlton and Solnet, 2011). A specific generation will have similar social or historical experiences. These experiences influence the members of that generation when it comes to attitude towards authority and work-related values. Each generation will have its own perception of how values and desires need to be satisfied. These requirements re-define the organisational environment and determine how business operations are conducted. Thus managers will need to assess their level of influence when embarking on training of future leaders.

The Generation Y group is gradually entering the hospitality industry as entry-level managerial workforce employees. Misunderstanding and resentment between older and younger employees is growing, and relations are becoming increasingly strained. The older employee tend to be more cautious and less likely to take risks, and probably more resistant to change (Smit and Cronje, 2003), whereas the younger employee will be more sceptical about the value of relationships within the organisation (Chen and Choi, 2008). According to Smit and Cronje (2003), the younger employee will also challenge conventions in the field of communication and management training. From a managerial point of view it is necessary to understand how work values differ as well as what similarities exist in a diverse workforce. An understanding of these differences will enable management to formulate better strategies with regard to recruitment and employee retention. The value of better recruitment strategies and employee retention affect the younger employee due to the fact that this person will fill a managerial position in future (Chen and Choi, 2008).

As the workforce in the hospitality industry can be divided into three distinct groups of people, Baby Boomers, Generation X and Generation Y (Yu and Miller, 2005), there will always be generational differences with regard to perspectives, attitudes and behaviour. However, it is important from a managerial point of view to know which gaps could create difficulties in the workplace. Ignoring generational differences could render an organisation less efficient (Govitvatana, 2001).

## **RESEARCH DESIGN AND METHODOLOGY**

The proposed study, will involve ‘exploratory research’ (Collis and Hussey, 2003), as it seeks to conduct research into a problem about which there are no known earlier studies. This study should provide significant ‘value in use’ (Remenyi, Williams, Money and Swartz, 2002) to the entire hospitality industry. The ‘social world’ (Remenyi *et al.* 2000) will serve as a platform for this study primarily because social science deals with how things are and why they are (Neuman, 2003). While the proposed study will be primarily empirical in nature using a quantitative (positivistic) research paradigm, it will also be underpinned by theoretical research, using a qualitative (phenomenological) research paradigm (Leedy and Ormrod, 2005). As ‘case study’ type of research provides the searcher with a wider research application in which to conduct research (Yin, 1994:1), and ‘action’ research serves as a method of doing case study research (Collis and Hussey, 2003; Struwig and Stead, 2004). ‘Case study’ will be the primary research method.

While training Hospitality Management students and having to place them in the industry to undergo experiential learning, aroused the curiosity of the researcher finding the link between expectations of the hospitality supervisor, employee and guest. Hospitality establishments compete on service quality and an organisation which fails to capitalise on the talents of their employees and guests/customers will lose the competitive edge to other hospitality establishments who actually involve both their employees and guests (Bettencourt, 1997). The question raised by the researcher is twofold: Which skills are required by the supervisor to perform in the workplace and what is the level of education needed to fill the position of hospitality supervisor? To be able to answer this question a profile of a competent hospitality supervisor needs to be drawn up.

A number of hospitality supervisors in one of the main hotel chains in the Republic of South Africa were selected as the population for this research. This hotel chain is rated among the top 50 hotel chains in the world and is regarded as the leading hotel group in South Africa (Southern Sun, 2008). One reason for choosing this specific hotel group is that currently there are more than 76 hotels in South Africa with approximately 379 supervisors. A ‘performance standards’ document which is used by the above-mentioned hotel group for the training, development and skills-building of staff was provided to the researcher. This ‘performance standards’ document is based on the concept of a “*leadership pipeline*” – how to build the leadership-powered company. Hospitality establishments constantly headhunt ‘stars’ from organisations outside their own companies. Recruiting outside employees for management positions could imply that the ‘leadership pipeline’ in a specific organisation is dysfunctional, because internal training, mentoring and other developmental programmes are not feeding the pipeline sufficiently (Charan, Drotter and Noel, 2001).

The category, Manage Others – Operational/Specialist, of which the core purpose is to deliver frontline team results through enabling others, was used to develop the questionnaire. Supervisors in this specific hotel group are evaluated according to the following performance dimensions: Leadership and people performance; Guest and relationship performance; Financial and business performance; Management and operational performance; and Innovation and improvement performance (Southern Sun, 2010). When compiling the questionnaire the above-mentioned performance dimensions were considered. The questionnaire consists of four sections, namely, biographical information (Section A); perceived supervisory experience; knowledge and skills with regard to the achievement of organisation’s goals (Section B); perceived expectations of personal performance as a supervisor (Section C); and required supervisory skills (Section D). Precise wording of questions or statements plays a vital role in interpreting the answers given by the respondents (Bradburn, Sudman and Wansink, 2004). The researcher made use of all five performance dimensions, provided in the ‘performance

standard' document, each with its own sub-headings and simplified these terms into comprehensible statements, which then made up Sections B and C of the questionnaire. For the purpose of this paper Section A of the questionnaire, which covers the biographical details of the respondent, is discussed. The reason for including the biographical details is to glean information which can assist the researcher to determine the age group, gender and level of education of those that are currently working in the hospitality industry.

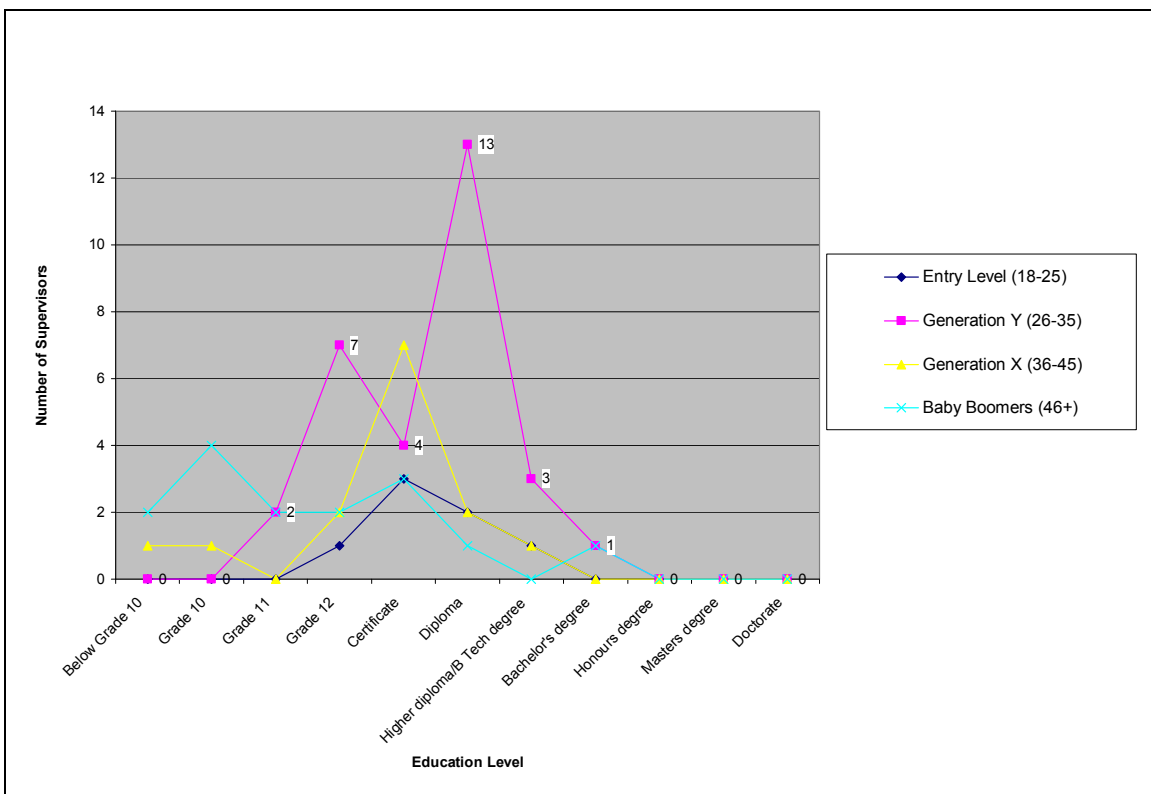
A first draft of a questionnaire is not perfect. Questions can be misunderstood, and not provide the researcher with the required answers. To prevent any misunderstanding it is important to the researcher to conduct a pilot-test before distributing the final questionnaire (Bradburn, Sudman and Wansink, 2004). After completion of the pilot-test reliability and validity of information extracted from the questionnaire are established. Ten supervisors from two boutique hotels volunteered to take part in the pilot-test. As the pilot-test procedure is not identical to the main study and respondents are given more flexibility it is very helpful for a researcher to establish a focus group after the completion of the questionnaire to discuss any problems experienced. No difficulties in the completion of the questionnaire were experienced and all ten respondents confirmed that the questions were clear, logical and relevant to their positions as hospitality supervisors. During the focus group discussion respondents did, however, mention that supervising employees had changed in recent years. Currently diversity of employees is forcing the supervisor to change his/her leadership style. Statistical data obtained from these respondents were checked by a statistician for purposes of correctness and good order.

In this particular study, ethical issues are involved. The researcher requested a meeting with the Human Resource Manager at this specific hotel chain. A presentation on the research topic, which was to profile the hospitality supervisor in South Africa, was approved and permission was given to conduct the research at the above-mentioned hotel chain. The training manager of the hotel chain involved in the training of staff and placement of hospitality learners was contacted. The researcher requested the supervisors from this particular chain to complete the questionnaire to collect valuable information from them. A document was drawn up to inform the participants about the nature of the study to be conducted. The researcher guaranteed that all responses would remain confidential. The questionnaire was then sent via e-mail to a key staff member in the hotel chain who was responsible for the distribution. Each respondent had a choice between e-mailing or posting his/her questionnaire directly to the researcher or it could be sent back via the office of the key staff member had distributed the questionnaire.

## **RESULTS**

Studies indicate that there are currently three generations of employees in the hospitality industry. According to Chen and Choi (2008) hospitality establishments continuously have to cope with new challenges. Diversity, combined with constant competition in the industry, is one of the challenges faced by management, as the realization grows that a wave of misunderstanding and resentment among the three generations (Baby boomers, older group, Generation X, not so old group and Generation Y, young group) is becoming acute. Management is faced with generational ideological conflict and resentment. Generation Y is perceived as having certain character traits, inter alia a lack of respect for authority and a desire for immediate gratification (Cairncross and Buultjens, 2007; Jones, 2007). They are more open, rebellious and aggressive and very keen on making money. Research on the Generation Y in China indicates that in terms of management, they are creative, but they demand to be heard.

The research being conducted to profile the hospitality supervisor in South Africa is in the preliminary stage as the data collected is not sufficient to provide an accurate profile. After having analysed the current data submitted by the 68 participants, the researcher has concluded that there is a definite trend towards younger supervisors in South Africa. The profile of supervisors that completed the questionnaire reflects: 10% entry level (not classified as a Generation as yet), 45% Generation Y, 21% Generation X and 24% Baby Boomers. The Generation Y is by far the largest group in this survey. Evidence bears out that Generation Y is also better qualified than the previous two generations currently employed. In the Generation Y category 13 of the 30 supervisors have diplomas, whereas four supervisors are in possession of a professional certificate. Of 30 in the Generation Y category 28 obtained Grade 12. Only 4 supervisors have post-diploma qualifications (see Figure 1). The reason could be that the hospitality industry rates skills and experience in an enthusiastic and committed team, rather than qualifications per se, as vital to the success of a hospitality establishment (Richardson, 2010).



**Figure 1: Education levels of supervisors**

**Table 1: Gender representation of participants with regard to profiling the hospitality supervisor in South Africa**

Gender	Number of Participants (Supervisors)	Percentage
Male	26	39%
Female		61%

	41	
<b>TOTAL</b>	<b>67</b>	<b>100%</b>

After having analyzed the data relating to gender representation in the hospitality industry in South Africa the researcher has come to the conclusion that there is an increasing trend towards a larger percentage of female supervisors than male supervisors - 61% female versus 39% male (refer to Table 1). According to Smit *et al.* (2008) the number of woman entering the labor market increases every year. With more women in the workforce, the dynamics of a hospitality establishment will change dramatically in the sense that they themselves will have to deal with issues such as work-family conflict, dual career couples and even sexual harassment. In South Africa seven out of ten women in the workforce have children. Due to long working hours in the hospitality industry, this could have an impact on hospitality organizations, as organizations may have to accommodate mothers and take some responsibility or offer childcare facilities. Another important issue regarding gender as a dimension of diversity is the ‘glass ceiling’ syndrome. This refers to women who are often ignored when opportunities for promotion in the organization open up (Smit, 2011). Studies done in France, Italy, Spain and the United Kingdom (Burell, Manfredi, Rollin, Price and Stead, 1997) indicate that although women do make an important contribution to the hospitality industry, they still occupy lower-status, less well-paid positions. According to Smit (2011), men in America hold 97% of top positions as opposed to South Africa where they hold 87% of top positions.

**Table 2: Race representation of participants with regard to profiling the hospitality supervisor**

<b>Race</b>	<b>Number of Participants (Supervisors)</b>	<b>Percentage</b>
White	5	7%
African	40	59%
Asian	14	21%
Coloured	8	12%
Other	1	1%
<b>TOTAL</b>	<b>68</b>	<b>100%</b>

Currently South Africa has a population of 50 586 757 people. Africans represent 79,5% of the population, Coloureds 9%, Indian and Asians 2,5% and Whites 9% (SSA, 2011). According to the statistics in Table 2, the African population has the largest percentage of supervisors, namely 59%, followed by Asian with 21% and Coloured with 12%. After the 1994 elections, South Africa adopted a new constitution according to which the country redefined itself as a democratic non-racial society. An Equity Employment Act and Affirmative Action legislation were promulgated by the South African government, and organizations were required through transformation to address imbalances in the workforce (Smit *et al.* 2008).



**Table 3: Number of years working in the hospitality industry with regard to profiling the hospitality supervisor**

<b>Years working in Hospitality Industry</b>	<b>Number of Participants (Supervisors)</b>	<b>Percentage</b>
0 - 5 years	23	35%
6 - 10 years	20	30%
11 - 15 years	7	11%
16 + years	16	24%
<b>TOTAL</b>	<b>66</b>	<b>100%</b>

Currently hospitality industry presents a negative image as employees regard working in this industry as a temporary employment option. Hospitality establishments tend to hire low-skilled employees at entry level and then promote them from within the pool of employees as they gain skills and experience. This is seen as a strategy employed by hospitality establishments that should develop appropriate skills, sensitivity, maturity and knowledge necessary to understand the guest's/customer's needs and expectations (Josiam, Reynolds, Thozhur, Crutsinger, Baum and Devine, 2008). Traditionally, the older two generations (Baby Boomer and Generation X) employees embraced the philosophy that a career was chosen for life, with the implication that they would spend their entire working life in one industry. With the younger generation (Generation Y) entering the workforce, perception has changed. The Generation Y employee tends to change employers within the industry or even pursue careers in other industries.

## **CONCLUSION**

Human resources are consistently listed as the most important element of concern in any hospitality establishment (Solnet and Hood, 2008). As the hospitality workforce becomes more diverse in terms of race, gender, ethnicity and generation, this becomes progressively more complex for hospitality management to lead, train and develop employees. Members of each generation have their own views on how they expect their values and desires to be satisfied. These views re-define the organisational environment and dictate how business operations should be conducted. The findings listed in the results commentary above clearly indicate that the largest supervisory group falls within Generation Y with a 45% representation. The next highest level of 24% is Baby Boomers which is a group that will decline significantly in the next decade. This presents a challenge to hospitality managers as they need to adapt employment strategies to suit motivational, training and development needs of the new generation – Generation Y, (Solnet and Hood, 2008). However, management should not forget that they have to accommodate two other generations currently in the workforce, namely Baby Boomers and Generation X. Yu and Miller (2005) confirm that even these two generations have very different lifestyle values and work ethics. Baby Boomers are hard workers who are very loyal to their employers. They are also a generation who expect management to give direction and lead them to achieve organisational goals. The Generation Xers strive for individual job satisfaction rather than just working hard. They are more independent and will

look for any opportunity to improve their skills. The hospitality industry is a labour-intensive industry and labour is seen as a fundamental component of the product delivered by the industry. Employees for whom specific positions are tailor-made, are improving a hospitality organisation's competitiveness in providing quality service and optimal productivity (Marchante, Ortega and Pagan, 2007).

## LIMITATIONS AND SUGGESTIONS

Limitations of this study must be noted. Data collected on the socio-demographic profile of the hospitality supervisor came from only one hotel chain in South Africa. Only 68 of the 379 supervisors completed the questionnaire, which means the data collected were insufficient to provide an accurate profile of the hospitality supervisor in South Africa. As the researcher expected a better response from the supervisors of this specific hotel chain, it is now clear that more comprehensive studies should be conducted to compile a more accurate profile of the hospitality supervisor in South Africa. Due to the low response rate of the supervisors, the researcher suggests that another four or five hotel chains in South Africa should be approached so that a larger group of supervisors would complete the questionnaire. This should provide the researcher with enough data to carry out statistical analysis and profile the supervisor currently employed in the South African hospitality industry.

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## **Branding Ghana as a Tourism Destination: An Exploratory Study**

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*Destinations have become increasingly man-made and competitive. Consequently, destination branding has become a key tool employed to differentiate destinations. This study investigated key destination attributes that can be employed to brand Ghana. Tourists were sampled to determine key destination attributes important to them, and Ghana's performance on those attributes. Echtner and Ritchies's (1993) image analysis framework was adopted for analysis. Tourists rated personal safety, different customs/cultures and friendliness of local people as very important. Ghana's performance was rated high on friendliness of local people; different customs/ culture; historic sites and personal safety. Night life was scored low for performance.*

### **Background to the Study**

Ghana is endowed with many tourism destinations and historic sites that can be exploited within a national branding strategy. Tourism plays a very important role in the economy of Ghana and according to the World Travel and Tourism Council (WTTC) tourism accounted for 5.4% of Ghana's GDP in 2011 and is expected to grow by 5.4% per annum in real terms between 2012 and 2022. Tourism contributed 259,000 jobs in 2011, representing 4.7% of total employment and is expected to contribute 334,000 jobs, representing 4.8% of total employment by 2022.

Despite the significant contribution tourism makes to the Ghanaian economy, its performance is rather poor. WTTC ranks Ghana's Travel & Tourism Economy at just number 104 in absolute size and 144 in relation to its contribution to the national economy in 2011. The relatively poor performance of Ghana's tourism industry can be linked to a lack of a comprehensive national branding strategy. Experts have argued that tourism cannot be delineated from branding and a tourism strategy should be developed within the broad context of a national branding strategy. According to the WTTC there is a symbiotic relationship between destination branding and tourism. They estimate that destinations are currently spending an estimated US\$1, 480 billion on attracting tourism through both capital and government expenditures. The WTTC also estimates that more than US\$2 billion is earned per day through international tourism with major destinations attracting about 70% of the international tourism revenue.

Morgan et al., (2003), maintains that branding is a powerful weapon in the marketing armoury of contemporary destination managers confronted with increasing competition, product parity and substitutability. They argue that all the leading destinations offer excellent locations and every country claims unique culture and heritage. Consequently, the need for destinations to portray a unique identity is more critical than ever. Brands also have social, emotional and identity value to consumers and as such when consumers visit destinations they are buying in to an image and more importantly an emotional relationship. Destination branding is complex as there are many decision-makers involved and the brand itself needs to appeal to a multiplicity of stakeholders, all with varying and often conflicting degrees of needs.

According to Balakrishnan (2008) it is estimated that approximately 200 national economies are competing in the destination market. Destination branding, which became topical some two decades ago has become more critical as tourism has become a fiercely competitive business worldwide and the competitive advantage is no longer natural but increasingly man-made (Blain et al., 2005; Jonker (2004).

Several studies have been done on Ghana's tourism industry but not much has been done within the framework of a national branding strategy. For instance, though Opoku and Hinson (2006), have done some work in this regard, their work was limited to an analysis of whether African countries communicate clear and distinctive brand personalities in cyberspace. Ghana is currently making efforts to brand the country, with the establishment of a “Brand Ghana” outfit. However, integral to the concept of destination branding is the identification of unique destination propositions that can be used to anchor the branding strategy, which Ghana seem to lack.

This study would therefore contribute to identification of unique destination propositions that can be used to anchor Ghana's national branding strategy. It is expected that this study would also stimulate more academic discourse on destination branding in developing countries in general and Ghana in particular. The study therefore aims at achieving the following objectives:

- Identify key destination attributes that can be used to Brand Ghana
- Evaluate Ghana’s performance on key destination attributes

Various attempts have been made over the years to define tourism. According to the United Nations World Tourism Organisation (UNWTO), tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The Ghana Tourism Authority’s (GTA) definition of tourism is similar to the UNWTO’s definition. According to the GTA, tourism is the activities of persons travelling to and staying in places outside their usual environment, for a period of not more than one consecutive year. These travels are for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited. The GTA considers the tourism industry on the other hand to be those organisations and facilities that incidentally or intentionally provide services for tourists, to cater for their needs from the time of planning for their trip, to their return home (Ghana National Tourism Marketing Strategy 2009-2012).

Tourism in Ghana is governed by The Tourism Act, Act 817 (2011). The Ministry of Tourism is responsible for policy while the Ghana Tourist Authority (GTA) is charged with the responsibility for implementation. Key stakeholders in the industry include The Ghana Tourism Federation (GHATOF) which is the umbrella association for private sector tourism organisations (GTA Directory, 2010). Ghana’s attempt to improve the performance of her tourism sector would be boosted by an effective destination branding effort.

## **Branding**

Branding has been defined variously. The American Marketing Association (AMA) defines a brand as a name, term, sign, symbol, or design, or a combination of these that is intended to identify the goods or services of one seller or group of sellers and to differentiate these goods from those of competitors. The notion of a name, logo or symbol, according Keller (2008) is not enough to create a brand name. According to de Chernatony (1997), a brand is an identifiable product, service, person or place augmented in such a way that the buyer or user perceives relevant unique added values which match their needs most closely. The notion of branding

transcends just using signs and symbols as a point of differential but as a point of superiority in performance. de Chernatony and McDonald, (1992), argue that it is myopic to view branding as naming, design or advertising. They argue that to take full advantage of brands as strategic devices, a considerable amount of marketing analysis and brand planning is required. Davidson (1997) agrees that with this assertion and argues that a strong brand involves features that are visible to the external eye and those that are not.

Brands are more than just names and symbols. Brands represent consumer's perception and feelings about a product and its performance. According to Kotler and Armstrong (2006), the real value of a brand is its power to capture consumer preference and loyalty. Keller (1998) observed that the ultimate aim of a brand is to achieve high equity. Brand equity exists when customers react more favourable to a product; if the brand name can be identified; or if the customers consider themselves to have a relationship with the brand. Kotler and Armstrong (2006), note that brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service. The primary source of brand equity is brand awareness and brand image (Keller, 1998). Brand awareness can in some cases be enough to encourage favourable action from the customer, especially when the consumer has to make low involvement decisions. However, when the purchase requires higher involvement from the consumer; strength, favourability and uniqueness of the product's brand associations are key determinants of the purchase. Brand awareness, recognition and recall are interrelated and prerequisites of brand equity. Though differences may exist between product and destination branding, brand equity is equally important for destination branding.

### **Destination Branding**

Published works relating to destination branding emerged in the late 1990s. The first destination branding journal article was written by Pritchard and Morgan (1998); the first book on the topic appeared in 2002; and the first academic conference dedicated to the topic was held in 1995 at Macau's Instituto De Formacao Turistica (IFT), (Pike 2005). Blain et al., (2005) defined destination branding as a set of marketing activities that support the creation of a name, symbol, logo, word, mark or other graphic that readily identifies and differentiates a destination and consistently conveys the expectation of a memorable travel experience that is uniquely associated with the particular destination.

According to the authors, the set of marketing activities should serve to consolidate and reinforce the emotional connection between tourist and destination and reduce consumer search costs and perceived risk. Gnoth (2002) sees destination branding as a management process that leads to a strategic plan to build a brand identity which is based on carefully selected attributes such as competitiveness, uniqueness and desired identity. Hankinson (2005) and Balakrishnan (2009) argue that there is a major difference between product branding and country branding as country branding for example involves many stakeholders such as national, regional, and local authorities.

According to Hosany et al., (2007) and Hankinson, (2005), current brand strategy frameworks cannot linearly be applied to destination branding because of its multidisciplinary foundation. This calls for different brand strategy framework to be applied to destination branding. Balakrishnan (2009), developed a framework for destination branding after a review of several models. He maintains that destination branding has five key components namely; vision and stakeholder management; target customer and product portfolio matching; positioning and differentiation strategies; communication strategies; and feedback and response management strategies.

Balakrishnan, (2008), contends that vision should be the starting point of any destination strategy. LaBonte (2003) notes that the branding of a destination begins with the strategic vision and de Chernatony (1999) argues that vision drives brand positioning hence is considered the beginning of a brand strategy. Vision must balance all stakeholder needs and ensure that branding aspirations are in harmony with local community needs and expectations (Balakrishnan, 2008; Dana et al., 2005). Destination products require strategic location and investments in infrastructure. Destinations are perceived differently by different segments and positioning improves when the destination image is matched with various segmentation variables (Yankelovich and Meer, 2006). According to Woodside and Dubelaar (2002), matching product portfolios to a few dominant target segments can increase reach, effectiveness of spending and loyalty.

Positioning is the way a brand is defined by consumers on important attributes and involves implanting the brand's unique benefits, beliefs and values in customers' minds (Kotler and Armstrong, 2006). Positioning can be achieved through brand components, which can be tangible or intangible attributes; and functional or symbolic in nature (de Chernatony and Riley, 1998). Destinations must ensure that their communications are integrated across all facet or target audience contact points in order to ensure that they transmit a single, coherent and consistent image. Integration and consistency can be achieved through broad stakeholder engagement and involvement in the planning, development and deployment of destination images (Rangan 2006). Destinations need to ensure that there is a convergence between the desired image and the actual image that is formed in the minds of the target audience. Market research can be used to reduce the gap between conceived ideal, projected and the actual destination image (Rangan et al., 2006).

### **Methodology**

The study targeted international visitors. A sample size of 100 was selected. The study adopted judgmental sampling, a non-probability sampling technique in selecting the sample. A five point Likert scale was developed to measure the importance and performance of attributes that visitors considered relevant. The questionnaires contained both close and open ended questions. The open ended questions provided an opportunity for respondents to express their thoughts and opinions to help reveal underlying information about their attitudes, emotions and perceptions.

The questionnaires were administered to both international students and tourists. The targeted population was sampled from the International Students Hostel and the Graduate Block of the University of Ghana. The selection of these sites was convenient for the researcher as a good proportion of international students stay in these hostels. The questionnaires were also administered at the lobby and poolside of Labadi beach and La Palm Royale Hotels in Accra. These are two of the major hotels that international tourists frequent regularly.

In measuring destination image/perception, the researcher adopted the framework developed by Echtner and Ritchie (1993) and twelve (12) attributes related to Ghana's destination image were selected. This framework is deemed one of the best known validated frameworks for destination image research (Chu and Choi, 2000). Questionnaires were checked for completeness before being coded. The data was analysed using the Statistical Package for Social Sciences (SPSS) software and Microsoft Excel. The Echtner and Ritchie's (1993) image analysis framework was used to aid in the discussion and to help identify strategic thrusts critical for the development of Ghana's image as a competitive tourist destination. Eighty-six (86) questionnaires were returned.



## Findings and Analysis

### *Characteristics of Respondents*

59.3% of respondents were females, majority of who were within the 20-29 (33%) and 30-39 (35%) age categories. The youthful nature of the sample is attributable to the fact that many respondents were international students at the University of Ghana. 89.53% were first time visitors to the country. The non first-time visitors were mainly from neighbouring West African countries like Nigeria. The primary purpose of most respondents was academic (59.3%). Other purposes included volunteering (12.79%), visiting friends and family (10.6%), vacation (8.14%), business (6.97%) and marriage (2.32%). Respondents also had secondary reasons for visiting the country which included the opportunity to experience a new culture and explore various tourist sites. The data also indicates that majority of visitors are Americans (53.3%), followed by Nigerians (8.1%) and Germans (5.8%). Majority of the respondents representing 68.6% intended to stay for more than 7 weeks, whilst 12.8% and 11.62% intended to stay for 4 - 5 Weeks and 2 -3 Weeks respectively.

### *Key Destination Image Attributes*

The respondents were asked to rate 12 different attributes on a scale of 1 to 5, where 1 is “not important” and 5 is “very important” according to the level of importance they attached to those attributes when evaluating Ghana's image as a tourist destination. Respondents were also asked to rate the performance of Ghana on these attributes on a scale of 1 to 5; where 1 is “poor performance” and 5 is “excellent performance”. The mean ratings/scores are provided in Table 1.

Table 1: Mean Ratings of Importance and Performance of Image Attributes

Attribute No.	Attribute Description	Mean (Importance)	Mean (Performance)
1	Accommodation Facilities	3.57	3.22
2	Warm Climate	2.71	3.57
3	Cost  Price Level	4.07	3.69
4	Different Customs  Culture	4.12	4.07
5	Friendliness of Local People	4.02	4.26
6	Historic Sites	3.78	3.91
7	Local Infrastructure / Transportation	3.34	3.07
8	Nightlife/ Entertainment	3.27	3.48
9	Personal Safety	4.27	3.84
10	Restful Relaxing Atmosphere	3.79	3.78
11	Scenery Natural Attractions	4.07	4.06
12	Tourist Information and Support	3.21	3.22
			3.86

Source: Field Data (2010)

The results indicated that the 12 image attributes had mean scores ranging from 2.71 to 4.27. The top five most important attributes were "personal safety" (4.27), "different customs/culture" (4.12), "costs/price level" (4.07), "scenery/natural attractions" (4.07) and "friendliness of local people" (4.02).

Personal safety was rated the most important consideration for visitors and this agrees with the opinion of Reisinger and Mavondo's (2005), who argued that safety and physical security are the primary conditions for normal tourism development of a destination, region or country. After the

9/11 terrorist attacks on the United States of America, perception of the world as a more risky place to live and travel is growing. Africa for example is inundated with several political instability, conflicts and terrorism attacks in places like Nigeria's Delta Region and Buku Haram challenges in Northern Nigeria; Somalia piracy and extremist Islamist group activities; conflicts in Sudan and Southern Sudan; political instability and conflict in The Ivory Coast and so forth. Therefore, security and personal safety are now critical concerns for tourists. This perception can have very serious implications for destination marketers.

Different customs/ culture, with a mean rating of 4.12 was considered the second most important attribute as visitors are interested in experiencing a culture that is unique from theirs in order to enrich their experiences. This confirms previous work which indicates that culture played a significant role in motivating international tourists to travel (Oh et al., 1995).

Cost/price level and scenery/natural attractions were rated equally with a mean rating of 4.07 each, and considered the third most important attributes by tourists. Cost/price may have become an important consideration for visitors as a result of decreased disposable income arising from the global financial crisis. Also, environmentalism / green culture has become a key issue around the world with various international conferences being organized on climate change. This can thus account for the increased focus on scenery/natural attractions as an important attribute for visitors.

Friendliness of the local people (4.02) is also an important attribute for visitors. 'Friendliness of local people' is an important variable that affects the decision of tourist to return in future or to recommend a destination. Tourists are usually strangers to the destinations they visit and so should be made to feel wanted and welcome. A hostile environment is likely to make them uncomfortable and insecure and this could result in negative 'word of mouth'.

In contrast, "night life / entertainment (3.27)", "tourist information and support (3.21)" "warm climate (2.71)" were rated as three of the least important attributes. It could be understood that "nightlife / entertainment" was rated low, because majority of the visitors were students on a semester abroad who had projects/assignments to complete and night clubs and pubs could be a major distraction.

### ***Performance of Destination Image Attributes***

The mean scores of the performance of Ghana on the twelve attributes already discussed were also calculated. The mean performance rating of the 12 attributes range from 3.07 to 4.26. See Table 1. Respondents gave top ratings to "friendliness of local people" (4.26), "different customs/culture" (4.07), "scenery/natural attractions" (4.06), "historic sites" (3.91) and "personal safety" (3.84)". According to Jenkins (1999), various studies conceptualize destination image as comprising such features as attractions, climates, culture, host populations, recreation and scenery. It is therefore important that Ghana's performance on most of these attributes were high.

Ghana was rated very high in terms of friendliness of local people (4.26). Ghanaians in general are deemed to be open, affable and helpful to visitors and this finding is therefore not surprising. The friendliness of local inhabitants is a key variable that shape visitor satisfaction and perception and Ghana's high rating is very important for its tourism and branding efforts. Ghana is endowed with a rich variety of customs/culture though Ghana's culture cannot be said to be remarkably different from that of other West African countries. Most of the respondents were from western cultures that are different from Ghana's culture. This may have accounted for the high score with regard to the differences in culture/customs (4.07). "Scenery/natural attractions" (4.06) was also

rated high and this could be attributed to the abundance of lakes, beaches, mountains and dense forests dotted around the country.

“Historic sites” (3.91) was also scored high for performance. Ghana is endowed with several historic sites including forts and castles dotted along Ghana’s shore line. For “personal safety” (3.84), most visitors felt Ghana was a safe place. Ghana has generally been peaceful since independence in 1957 and has achieved political stability since 1982, though the period from 1982 to 1992, was under a military dictatorship. The ascension of Kofi Annan to the high office of the United Nations Secretary General may also have boosted the perception of Ghana as a peaceful nation. “Nightlife/ entertainment” (3.48), “tourist information and support” (3.22), “accommodation facilities” (3.22), and “local infrastructure/ transportation” (3:07) were all perceived as relatively low performers; they received low ratings.

The lack of an effective entertainment guide that indicates all the entertainment hotspots may be a major factor that accounted for Ghana's relatively low performance in nightlife/entertainment. Ghana's relatively high rates charged by certain entertainment hotspots may also have accounted for a low performance with respect to “nightlife/entertainment” (3.48). Ghana as a developing country is inundated with various infrastructural challenges. The absence of good roads, the lack of an organized / time scheduled transportation system and the absence of an effective intra-city and inter-city rail transportation systems may be key factors that resulted in Ghana's relatively low performance on infrastructure and transportation.

Ghana's overall performance had a mean score of 3.86. Therefore a well designed and integrated branding strategy can effectively position Ghana on the international destination map and greatly improve Ghana's image/performance as a competitive tourist destination

## **Conclusion**

Findings from the research indicate that Ghana has the necessary attributes that can be leveraged to convert it into a powerful destination brand. The ability of a destination to determine the attributes that are unique to it and to effectively project them is more likely to have a competitive edge over other destinations. It was evident in this study that tourists considered several variables as important to them in visiting Ghana. The country should leverage those attributes that are important to tourists and for which it was rated high for performance; and improve upon those attributes important to tourists but for which Ghana’s performance was rated low.

However, branding is a long-term activity and as such, it requires a deep-seated commitment of the political leadership, as well as broad stakeholder engagement and involvement. The concept of destination brands also transcends just the development of clichés and strap lines as the locals should believe and immerse themselves in the values of the brand. The brand should also consistently be reviewed to ensure that there is always a convergence between the intended positioning and actual positioning.

The sample size for the study was small. This means the generalisation of the findings from this study to the larger tourist population should be done with caution. A future study could consider using a more diverse target tourist population and a bigger sample size spread across several destinations in the country. Future research could also compare the perception of Ghana as a tourist destination amongst various age categories in order to determine whether visitors hold similar perceptions or the perception of visitors is shaped by age.

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## **Graduate Student Paper**

## **Towards a Framework for the Sustainable Management of Social Housing Estates in Nigeria.**

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*Housing is a centre for many socio-economic activities and often provides a mark of prosperity, social acceptance, and an element of urban development and growth in a country. However, it is suspected that the significance of housing to people in the Niger Delta of Nigeria is lacking because of poor post-construction management practice that is currently in place. At the same time, there are housing shortages, uncompleted, vandalized and abandoned social housing stock in the Nigeria Delta. This has been a continuing challenge facing people in this region as reported in previous studies. Therefore, the overall aim of the study is to develop a framework for the sustainable management of Social Housing Estates in the Niger Delta of Nigeria. This paper aims to set out the context for the research, identify its overall aim and objectives and thereafter considers issues related to the determination of an appropriate scope for the study. It argues that the management of social housing estates in a sustainable manner needs to adopt the principles of sustainability in combination with effective people centred management and building maintenance practices. It further asserted that the development of such a framework would be a panacea approach in meeting the social housing challenges faced in the Niger Delta and in Nigeria at large.*

### **Introduction**

Housing is the centre for socio-economic activities and stands as a mark of prosperity, social acceptance, and an element of urban development and growth (Oyebanji *et al* 2011, Wapwera *et al*, 2011). The availability of decent housing for each family defines the level of development which a country has reached. Therefore, housing is fundamentally an important issue for people in all corners of the world, since their well-being is enhanced by their total level of enjoyment of certain standards of living condition. This indicates that housing is an important factor in the recognition of a society's success among nations. Similarly, housing provides a link between the physical development of a city, and its social and economic outcomes. However, it is difficult to talk about the success of a nation, or a society within a nation without analyzing its housing situation. This is because the social and economic wealth of the country can only co-exist with good housing. This study is not concerned with the design of a specific housing unit, but concerned with the design of a whole housing environment which includes accommodation, jobs, education, and health services in a context that must be accessible, safe, hygienic, aesthetically pleasing and also sustainable to the Niger delta people. However, such features of housing to people in the Niger Delta of Nigeria is lacking because of inadequate, shortage, vandalized, uncompleted and abandoned social housing estates (Oladapo, 2002, Wapwera *et al*, 2011). In addition, 60-80% of the estimated population of developing countries live in shanty towns, slum and uncontrolled environments (Wapwera *et al*, 2011, Habitats, 2006a). The social housing shortage has been linked to improper project implementation (Wapwera *et al*, 2011), lack of a post-construction management framework, improper land allocation, lack of funding, and mortgage institution efficacy (Okoroafor, 2007, Wa'el *et al*, 2011).

In the developing countries, the expanding urban areas and population is faced with a shortage of social and this situation is getting worse yearly (Seong-Kyu Ha, 2008). Jiboye (2004), and HABITAT (2006a) studies suggested that there was no evidence of improvement in the social housing conditions of the low-income groups in terms of affordability, tenure, standard and access to services. Though, there are some structural policies such as the structural adjustment programme formulated to address the problems on social housing in the developing countries but it has never helped to resolve the issues (Aribigbola, 2008).

In Nigeria, several 'provider –oriented' public driven strategies have been adopted, such as federal and state government housing schemes, slum clearance and resettlement projects (Aribigbola, 2008); but these have not had any remarkable impact in social housing challenges faced in the country as about 70% of Nigerians are living in slum and squatter areas which situation has not changed till today (Wapwera *et al*, 2011). In fact, the problematic thing is that most of the social housing provisions are abandoned either half way to completion or after completion as a result of no framework for the management and maintenance of the social housing provided (Fatoye and Odusami, 2009, Fatoye, 2009). As a result, the study seeks to explore 'why social housing is in short supply, vandalized, uncompleted, abandoned and unoccupied? In addition, the study seeks to explore why the social housing projects have become '*white elephants*' within the very poor communities that desperately needs them (Ihuah, 2007). However, equally significant is the post-construction management strategy of such estates which is suspected as being non-proactive and in some circumstances is never believed to exist (Nwaka, 2005, Aribigbola, 2008, Ihuah, 2007, Babalakin, 2004). Though, Harvey and Reed (2004) have argued that such situations are caused by wider institutional issues that are not put in place or properly implemented and there is a lack of regular planned preventive maintenance practices. Therefore, a gap has been established from the literature that shows there is no post- construction management framework for the social housing estates particularly in the Niger Delta. This study is to focus attention on developing a framework for the sustainable management of social housing estates in Niger Delta. However, this paper sets out the context for the research, identifies its overall aim and objectives and thereafter considers issues related to the determination of an appropriate scope for the study.

### **Theoretical Concept: Sustainability; Social Housing; and Building Maintenance. Sustainability/ Sustainable Development**

In the developed and developing countries, urban and rural areas are faced with rapid urbanization and as a result there are a series of environmental, socio-cultural and economic issues that need to be addressed. This problem emerged because of the continually increasing population, the consumption and depletion of the natural resources and the consequent regeneration of waste and pollutions in the built environment. Therefore, the need to abate these issues raise means that the work is concerned with the concept of sustainability or sustainable development as it was developed with the intent to provide solutions to the problems and challenges faced by the developing and developed countries.



Sustainable development or sustainability is conceived in different ways and particularly in the context of environmental issues, economic, social and political developments, and sustaining development benefits (Worika, 2002). This contentions depends on the interest; the assessment; and evaluation strategies for sustainability. At the same time, on the varied cultural differences, ideological inclinations and the development goal between individuals, groups or nations (Worika, 2002). However, there are today over 300 definitions published of sustainable development which represent the product of diverse world view and competing vested interest in the field (De Vries and Peterson, 2008). Therefore, the question to ask now is “*what meaning does sustainability have? Do the application of social housing sustainability different from the goal and objectives? Also, what resulted in the sustainable development concept of which it has received a popular acceptance*”?

Franks (2006) asserted that *sustainability means anything the writer requires* and that the understanding of the constituents of sustainable and unsustainable development is crucial in any project management and post-construction management system. Similarly, it would be a sustainable development if it reduces the disparities between the poor and the rich. In addition, Porritt (2000) in Lutzkendorf and Lorenz (2005, 213) argued that for the achievement of sustainability, it was necessary to measure it against a set of four ‘system conditions’ such as:

- *Finite material (including fossil fuels) should not be extracted at faster rate than they can be redeposit in the earth’s crust;*
- *Artificial materials (including plastics) should not be produced at a faster rate than they can be broken down by natural processes;*
- *Biodiversity of the ecosystem should be maintained; whilst renewable resources should only be consumed at a slower rate than they can be naturally replenished;*
- *Human needs must be met in an equitable and efficient manner.*

In contrast, however, Cooper and Jones (2008) in their study on social housing argued that development will be sustainable when attention is given more to greater community engagement; deliberative forums to help people live more sustainable lifestyles; investigating ways in which stakeholders can influence decision-making; new commitment to support education and training in sustainable development; and response to key environmental issues.

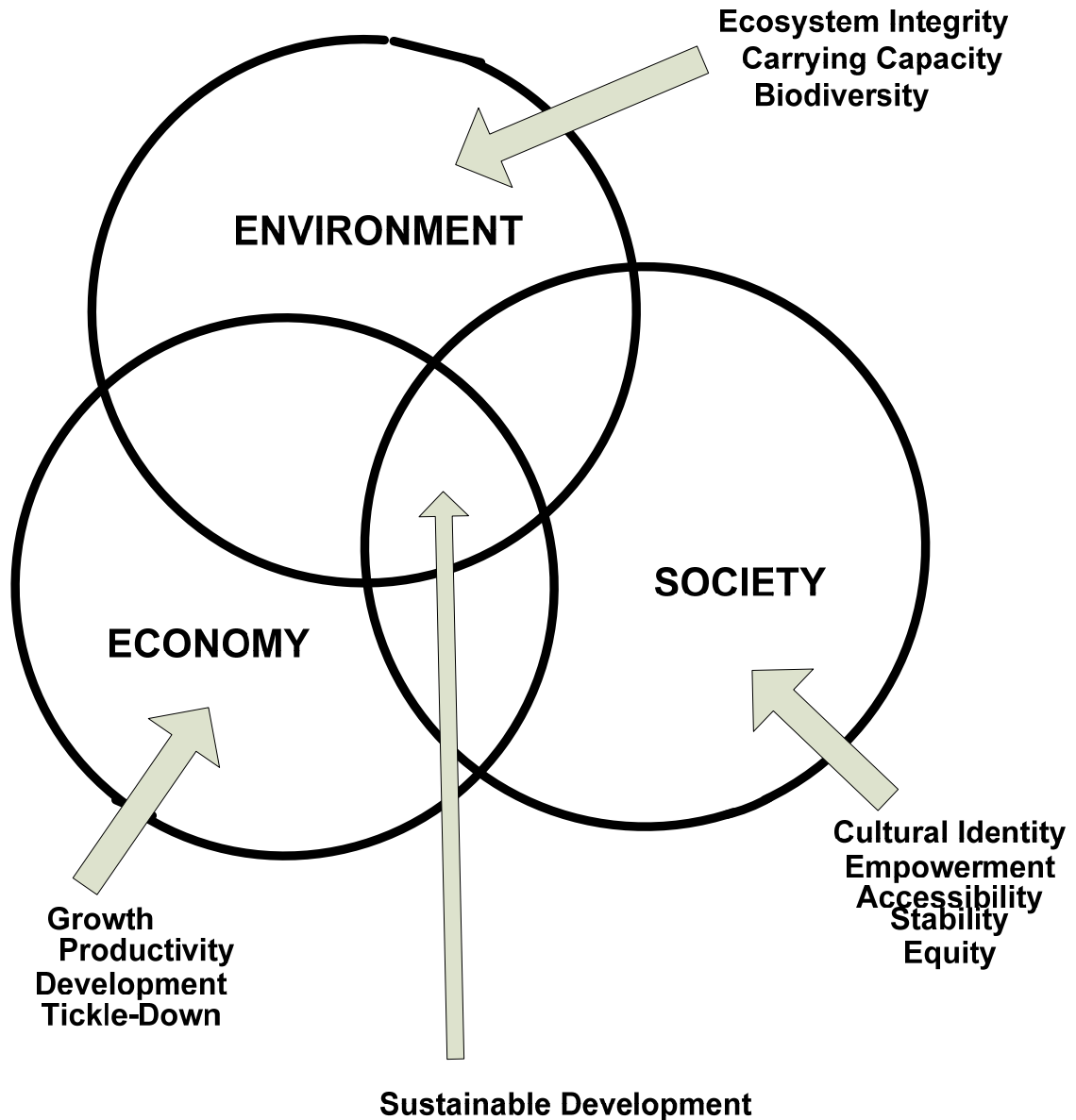
Fundamentally, sustainable development tackles three major areas which ensure that;

- People living today are entitled to justice and equal rights;
- Environmental degradation must be alleviated or eliminated; and
- Future generations must not be impoverished as a result of current actions.

However, the World Commission on Environment and Development (WCED 1987, 8) defined sustainable development as development which ‘*meets the needs of the present without compromising the ability of future generations to meet their own needs*’. The Commission emphasised that addressing these problems require global economic growth whilst representing ecological constraints. The commission did not only consider that environmental problems needed to be addressed but also that the social and economic problems were equally significant and needed to be tackled. The concept of sustainability at first relied on environmental phenomenon, but currently, it has gone beyond the boundaries of environmental issues to include social, economic, political, and development issues (Edum-Fotwe and Price, 2009, Brandon and Lombardi, 2011).

Therefore, Brandon and Lombardi (2011, 21) contended that sustainable development is concerned with smoothing the progress of improvement without endangering what already exists. They define sustainable development as “*a process which aims to provide a physical, social and psychological environment in which the behaviour of human beings is harmoniously adjusted to address the integration with, and dependence upon, nature in order to improve, and not to impact adversely, on present or future generations*”. Similarly, Ding (2008) argues that sustainable development is development concerned with attitudes and judgement to help ensure long-term ecological, social, and economic growth in society. This means that sustainability is the simple idea of ensuring a better quality of life for everyone now and for generations to come. Therefore, sustainability could be described in terms of social, economic and environmental states which are required in order for overall sustainability to be achieved.

In all the work as indicated above, it is clear that while the concept of sustainable development from literatures is well known and widely used, it is also evident that there is no common understanding of it. For instance, in consideration of what ‘needs’ are regarded as being important, sustainability varies from nation to nation. In fact, it is different in time, economic, social and cultural backgrounds. Therefore, what constitutes sustainable development is very much context-specific and the condition and practices of same may not be applicable everywhere. It is in this light that Lutzkendorf and Lorenz (2005, 213) argued that sustainable development is *a journey towards a destination: ‘sustainability’* and its *‘triple-bottom line’* concept involving balancing economic, social and environmental issues. Therefore, social, economic and environment as in figure 1 are the dimensions of sustainable development which are equal, but, it is the environment that is the dominant dimension which sets the preconditions for the other dimensions



*Source: Lutzkendorf and Lorenz (2005); The interactions of the three dimension with sustainability at the centre of intersection (figure 1)*

In summary, it is clearly shown that research on sustainable development or sustainability centres around the definition given by the WCED. This has remained the acceptable definition and underpins the concept of sustainability/sustainable development in the built environment and the world.

### ***Social Housing***

Housing is not only the building block of the sustainable communities, it is all about the transformation of communities and creating places where people should continually live and work for present and future generations. In this perspective, it is significant to consider what is suspected to be sustainable social housing or building, relating it to the

sustainable development objectives. Lutzkendorf and Lorenz (2005, 214) asserted that in order to classify sustainable social housing or building, it is possible to start with the general area of protection, which is part of the three dimensions of sustainable development and such includes:

- *Protection of the natural environment;*
- *Protection of the basic natural resources;*
- *Protection of human health and well-being;*
- *Protection of social values and of public goods; and*
- *Protection and preservation of capital and material goods* (Lutzkendorf and Lorenz, 2005, 214).

Consequently, the classification of sustainable social housing or building is based on fulfilment of certain requirements. Lutzkendorf and Lorenz (2005, 214) study indicate as being the following; minimization of life cycle costs; reduction of land use and use of hard surfaces; reduction of raw material; and the closing of material flows. It would equally consider avoidance of hazardous substances; reduction of CO<sub>2</sub> emissions and other pollutants; reduction of impacts on the environment; protection of health and comfort of building occupants; and preservation of buildings' cultural values. Therefore, the above requirements can be aligned to the economic, social and environmental requirements for sustainable development of social housing or building and any other construction projects. Brandon and Lombardi (2011) similarly stressed that for a building to be sustainable; its ecological footprint should closely match or be smaller than its physical footprint. They stated further that sustainability can be achieved through using the minimum resources which are obtainable locally and also minimising the amount of the resulting pollution and waste to a level capable of being disposed-of safely within the confines of the built environment.

However, linking this concept to social housing, several various definitions exist; the EU defined sustainable social housing in terms relative to quality construction, social and economic factors as regard to affordability and psychological impacts, and eco-efficiency such as efficient use of non-renewable resources in the built environment (VROM, 2005) in (Cooper and Jones, 2008). Sustainable social housing would be one with co-efficient over time, comfortable, cheap to maintain and should complement our exclusive environment. In addition, sustainable social housing should be a housing practice, which strives for integral quality; including social, economic and environmental preference in a broad way. Consequently, Cooper and Jones (2008) argued that there is need to incorporate the principles of sustainability if our social housing is to provide a good standard of living. Therefore, sustainable social housing would be one characterised by the minimization of the environmental impacts of material use, energy consumption and water consumption during the whole service life-cycle of the social houses. Finally, applying the sustainable development concept to social housing, a distinction usually needs to be made between serviceable and ecological sustainability. Therefore, for social housing projects to be sustainable the issue of natural resource depletion should not be normally a key factor, rather functioning and serviceable sustainability should be a priority or should be considered as being more relevant. In this context, the concept of sustainable development is applicable to housing or building since serviceability and

functionality is an integral part of housings or buildings and contributes to sustainable development (Lutzkendorf and Lorenz, 2005).

### ***Building Maintenance Management***

In simple terms, a building can be described as walled roofed structure used for many economic activities that age and deteriorates throughout its lifespan. Therefore, it undergoes physical, functional and economic obsolescence. At the same time, good building maintenance practice will increase its value with respect to functionality, physical appearance and economic returns (Olanrewaju *et al*, 2011). Building maintenance is perhaps one of the functions of an estate manager and entails the planning, forecasting, controlling, directing and co-ordinating maintenance activities with the aim of optimizing returns (Baharum *et al*, 2009). It is a significant process as it is aimed to preserve buildings for its continual uses in the built environment. Also, it is necessary to consider issues related to value for money, investment and good appearance in any integrated maintenance plan (Olanrewaju *et al*, 2011). However, “building maintenance” has several definitions but the British Standard Institution (BSI 3811, 1993) defines it *as works undertaken in order to keep or restore every facility including the site, building and to an acceptable standard/condition*. Although, it could be argued that the definition was narrow because it did not consider the improving of any facility, that is, the building, its services and surrounds to a currently acceptable standard and to sustain the utility and value of the facility. However, Olanrewaju *et al* (2011, 263) asserted that building maintenance is ‘a processes and services to preserve, repair, protect and care for a building’s fabric and engineering services after completion, repair, refurbishment or replacement to current standards to enable it to serve its intended functions throughout its entire life span without drastically upsetting its basic features and use’. Therefore, it has now included the word “maintain”, “repair”, and “alter” as to reflect the requirements of the clients, end users and the community. But, all the meanings revolve around and within the phrase restoring, maintaining, or repairing a building as to improving the value of the built assets.

### ***Building maintenance Objectives, Policy and Types.***

Building maintenance is not all about the property *per se*; rather, it includes the property itself, the purpose for its existence, and its occupants or users. Though, the objectives of building maintenance remain the same and as enlisted;

- to ensure that buildings and their associated services are in a safe condition;
- to ensure that building are fit for use;
- to ensure that the condition of the building meets all statutory requirements;
- to maintain the value of the building stock; and
- to maintain or improve the quality of the building.

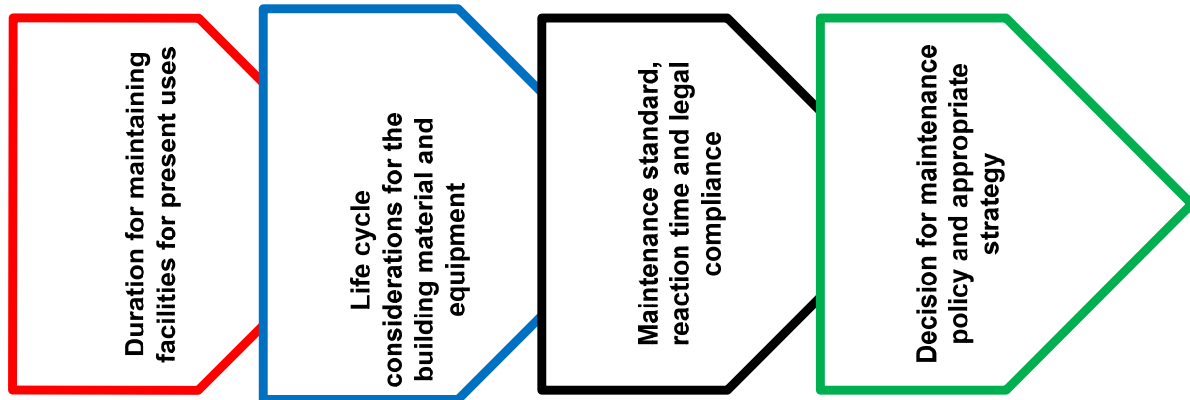
Consequently, for the building (housing) maintenance objectives to be accomplished, a housing maintenance policy is necessary as it is a tool for the proper planning for any maintenance strategy to use in a maintenance work. Therefore, the building maintenance policy consists of;

- the length of time for maintaining the properties for their present uses;
- the life requirement of the building and their fittings and services;
- the standard to which the house and its services are to be maintained;

- the reaction time required between a defect occurring and a repair being undertaken; and
- the legal and statutory requirements needed for successful maintenance operations.

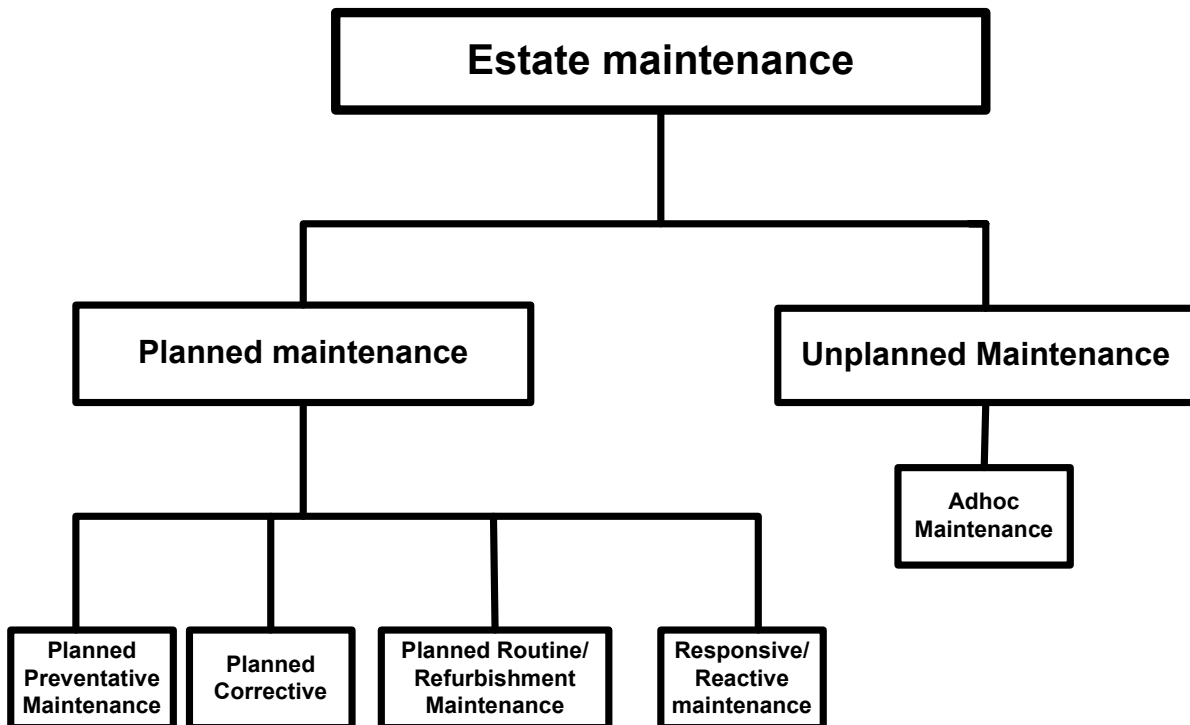
Source: Lee and Wordworth (2001).

Similarly, Lee and Scott (2009) asserted in a study of the overview of maintenance strategy that the order of formulating housing maintenance policy should be as thus:



Source: Lee and Scott (2009); *Sequences for formulating building maintenance policy and strategy* (figure 2).

However, in literature related to housing maintenance, different types and approaches have surfaced such as “**planned**” and “**unplanned**” maintenance as in figure 3. The appropriate strategy to use is the decision of the estate manager, the nature of the estate and the type and nature of the maintenance work required.



*Source: Baharum et al, (2009) Building maintenance types (figure 3).*

## **Problem Statement**

In the Niger delta, constructed, commissioned and on-going social housing units are provided by either the federal or the state government. However, there are shortages of social housing units and obtaining appropriate housing has remained a major challenge facing people in this region. This situation is tied to the exploration and exploitation of crude oil activities which characterize the region and continue to lead to the unprecedented urbanization and uncontrolled population increase in the Niger Delta which increases the social housing challenges. The federal and state governments in the last decade placed emphasis on its social housing provision throughout the country and in particular Niger Delta. However, it is obvious that there are no signs of that their policies are averting the housing challenges prominent in the region (Wapwara *et al*, 2011). At the same time, the numbers of uncompleted, vandalized, abandoned, and unoccupied social housing units in the region is significant (Kadiri, 2004). Also, there is evidence of corrupt practices, lack of good governance and decentralization of powers, and lack of proper integration of the community and end-users into social housing decision-making can be said to be ineffective (Ihuah, 2007; Kadiri, 2004). In addition, Wapwara *et al* (2011), Oladapo (2002), and Kadiri (2004) asserted that there is infrastructural services and amenities inability in the social housing provided to cope with the demand of the people. Another severe issue is the suspected lack of an existing maintenance management strategy for the existing social housing units. Similarly, Olotuah and Bobadoye (2009) and Kadiri (2004) assert that the triple principles of sustainability namely social, economic, environment which are imperative are not being considered. Finally, all the literature reviewed as indicated above have emphasised on how social housing could be provided without any consideration on how to manage the existing and forthcoming housing units in a sustainable manner. Therefore, the development of a framework for social housing estates management which incorporates the principles of sustainability becomes a priority in meeting the challenge of the Niger Delta.

## **Research Aim and Objectives**

A central aim of the study is to develop a framework for the sustainable management of the social housing estates in the Niger Delta of Nigeria. The objectives for the study are to:

- ✓ conceptualize social housing maintenance management.
- ✓ determine the theoretical estate management principles for the management of social (public) housing estates.
- ✓ evaluate the theoretical concepts of building maintenance management.
- ✓ conceptualize the underpinning concepts in sustainability, its factors, assessment, evaluation and monitoring.
- ✓ develop a framework for the sustainable maintenance management of social housing in the Niger Delta of Nigeria.

*Research Scope:*

The Niger delta of Nigeria is the third largest wetland in area in the world and highest in Africa (Omeje, 2006). The area is found in the southern part of Nigeria with a wetland of about 70,000 sq kilometres with 7.5% of the total land mass of Nigeria. The areas is potentially dominated with an abundance of crude oil reserves, currently making it popular and famous in terms of natural resources in the country and in the world at large (Omeje, 2006, Evuleocha, 2005, SPDC, 2002). It is an area characterised by different ecological zones such as sandy coastal ridge barriers, brackish/saline mangroves, freshwater swamp forest and low land forest. Niger Delta is one of the highest floodplain in Africa with many tributaries that drain into river Niger and into the Atlantic Ocean along the Gulf of Guinea with high rainfall, poorly drained soil, flooding and erosion, with 80% of the area flooded annually. It is an area rich in biodiversity and which received several intimidations as a result of crude oil exploration and exploitation (UNDP, 2006, Evuleocha, 2005). The area is also associated with high temperatures as a result of the unusual greenhouse gas flared and pumped into the environment (13,000-14,000 degrees Celsius) whilst the effect of acid rain makes communities living conditions a depressive one (Omeje, 2006, Evuleocha, 2005).

In terms of socio-demographic composition, the area is a difficult one with 40 ethnic groups and 26 language groups scattered in the politically defined nine states of Akwa-Ibom, Abia, Bayelsa, Cross-Rivers, Delta, Edo, Imo, Ondo and Rivers (Omeji, 2006). In reality, the Niger Delta is only the six states within the coastal area of Nigeria, which includes Akwa-Ibom, Bayelsa, Cross-Rivers, Delta, Edo and Rivers. However, in term of history and catastrophe, it consists of only Bayelsa, Delta and Rivers states. The area has a total population of more than 31 million people with Rivers and Delta states dominating with an estimated population of 6.7 million people, producing 80 percent of the Nigerian crude oil which account for 50-60 percent of Federal Government's revenue (NNPC, 2006). It is argued that virtually all the communities in the Niger Delta are typically rural (SPDC, 2002). Unemployment levels have remained at 30 per cent and about 75 percent of the area lack access to housing, safe water, infrastructural facilities, education, hospital, health care etc ( Omeji, 2006, Evuleocha, 2005). Fishing and peasant farming are the main occupations in this region. Finally, the Niger Delta is generally poor and the poverty level is high. In fact, GNP per capita in the area is below the national average of US\$260 (Evuleocha, 2005).

**Research Procedure:** The study will adopt exploratory and explanatory processes in a qualitative research strategy that uses a case study approach. This will allow all stakeholders views to be incorporated into the emergent framework. The data collection will involve semi structured interviews and documentation drawn from selected case study organisations.

**Originality:** The study takes the debate on meeting the social housing challenges faced in Niger Delta further from being focused only housing provision as the review of other studies has revealed. This study will emphasise that there are needs to beyond the provision of the social housings that need to be resolved so as to solve the acknowledged housing problems. In particular this study will explore how to manage the created assets in a sustainable manner after they have been provided. This will be through the development of a strategic framework that would act as a multi-dimensional tool to aid social housing management decision making.



## Conclusion

The literature review on developing countries and their social housing estates (public estates) and that of Nigeria in particular, shows that mass housing provisions were seen as a means to overturn the housing problems in the developing countries and in Nigeria. However, Kadiri (2004); Olotuah and Bobadoye (2009) argued for sustainability in housing provision but, there was no framework or strategy developed or adopted for the sustainable management of the social housing stock after its completion which incorporates the principles of sustainability. Therefore, this study seeks to develop a framework which incorporates the sustainability principles (Social, Economic and Environment) for the management of both existing and future social housing stocks in a sustainable manner in Niger Delta of Nigeria is crucial. When developed, it is suspected that such a framework would be a better approach to meeting the social housing challenges faced in the Niger Delta.

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## **China-Africa Business Relations**

## When the Dragon and the Elephant meet: Creating Communities of Practice and Socialization

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*Communities of practice (CoP) where there is no strong established union or integration scheme may become one dimensional largely created and promoted by the most influential and economically powerful partner. Although China and African states have no strong union, the emerging relations appear to follow this pattern in which CoP reflect the policy objectives of China and its agents of the socialization process. Although it is still early for the practices to manifest overtly, there are strong indications and pointers based on the intensity and degree of exchanges between China and African countries that these patterns will eventually occur. This paper examines the evidence for the creation of communities of practice through the socialization agencies of trade, foreign direct investment, public diplomacy and education.*

### Introduction

Since the beginning of the twenty-first century, China has reinvigorated and accelerated its relations with Africa. In doing this, it has preferred the use of soft power, rather than hard power. China has increased its activities in Africa many fold. For example, it has cancelled debts owed by some of the highly indebted countries in the continent; it has increased its foreign direct investment (FDI) from a mere \$0.5 billion to \$9.0 billion in 2010; it has increased its trade with Africa to the tune of \$115 billion in 2010; it has increased its scholarship pledges from 2000 to 5500 by 2012; and it has also deepened its use of public diplomacy and infrastructural investment in Africa. The question then is why is China doing all these? Many scholars attribute China's invigorated interest in Africa mainly to garner Africa's sources of energy and natural resources (Zweig and Jianhai 2005; Alden 2007; Kurlantzick 2006a and b; CFRc2006; Taylor 2006; Brautigam 2010). In this paper, I argue that while recognizing that the need to secure sources of energy and other resources in Africa may be paramount, China has a long-term motive, that is, to create enduring communities of practice that will enhance trade, investment and improve China's global image and power.

Although Community of Practice (CoP) was coined by cognitive anthropologists, Jean Lave and Etienne Wenger (1991) in a path-breaking analysis, it is axiomatic among students and scholars of economic and political integration that when group of states come together to cooperate and coordinate activities in certain areas such activities would produce certain practices among the integrating states. However, the range and form of these practices vary from group to group depending on a variety of variables, such as the type of integration or cooperation. In their coinage, "communities of practice are formed by people who engage in a process of collective learning in a shared domain of human endeavor" (Wenger 2006). It could be a group of scientists, engineers, tribal people or group of sovereign states engaged in different areas of human activity. As William and William (1997) succinctly put it, CoP "consists of people who are informally as well as contextually bound by a shared interest in learning and applying common practice". It is therefore a process that involves learning and exchange of ideas and things among people or states with common concerns and/or interests which might create intentional or incidental outcomes. It is a process characterized by three interrelated features: a *domain* that is a group defined by a *shared domain of interest*; the *community of people* that is, members engaged in joint activities, building relationships and assisting members; and *the practice*, that is, developing

a more or less self-conscious shared repertoire of resources which takes time and sustained interaction (Wenger 2006). It is also a process which is sustained and reproduced by the mobilization of organizational and material resources (Adler 2007).

Practice on the other hand is socially constructed and organized background knowledge-based activities which are learned and carried out by members of a group. Knowledge is not only personal but also embedded in routines and organizations which can evolve and transferred (Swidler 2001; Adler 2007).

In terms of socialization, it is a process which involves the transmission of rules of socially appropriate behavior/practice for actors. It is a process of learning that requires internalization and internationalization which provides certain guidelines and practices of other actors in international relations. Although current International Relations theory fails to explain how socialization works, some scholars have tried to show how state behaviors are shaped in international politics. For example, writing on socialization in the New Europe, Schimmelfennig (2000) defined international socialization as a process in which the Western community transmits its constitutive liberal norms to Central and Eastern Europe and argued that international socialization in the new Europe is best explained as a process of rational action in a normatively institutionalized international environment.

Under China-Africa relations, socialization is a process in which China transmits its state-led social, economic and political transformations to Africa states. While there are many agents of socialization, international socialization involves two mechanisms, namely persuasion and incentive (Greenhill 2008; Johnson 2008). Incentives can cause changes in behavior and the learned behavior can become habitual. Similarly, interest can change due to persuasion leading to respect and practice of those behaviors of the actors. Change may not necessarily be spontaneous in relation to these mechanisms.

Although Sino-Africa relations go back in history, the relations have deepened and intensified since the beginning of the 21<sup>st</sup> century. As a group of sovereign states bound informally and contextually by common and shared interests and concerns, this paper using the agencies of socialization process, such as public diplomacy, trade, investment, education etc., examines communities of practice that may have evolved and continue to evolve as consequence of China's invigorated relations with Africa.

### **Literature on CoP and its implications**

The concept of CoP and its applicability has been recent and limited. First developed by scholars working in the field of cognitive anthropology, CoP has been applied to a variety of groups, businesses and even adopted by other disciplines as a method of research. Lave and Wenger have applied CoP as a learning process to different groups including practitioners of crafts and skilled-based activities, Yucatán midwives, nature tribes, navy quartermasters, meat cutters; and Wenger has applied it to insurance and claims processors (Lave and Wenger 1991; Wenger 1998).

As a theory and a part of the field of knowledge management, Hildreth and Kimble (2004) have applied CoP in their work on innovation and knowledge networks. CoP has also been applied in the field of education (Grossman 2001), and in the field of sociolinguistic and anthropology in creating the learning environment for education (Kimble, Hildreth and Bourdou 2008). With regard to the application of CoP to specific firm, Brown and Duguid in an important study utilized CoP to show how Xerox customer service representatives who repaired machines in the field exchanged tips and tricks over informal meetings and how these relationships led to the

creation of the Eureka project by Xerox to allow these informal interactions to be shared across the global network of representatives (Brown and Duguid 2000).

However, the idea that interactions or transactions between and among states create certain practices has been long established and articulated in the works of many international relations scholars such as the Deutsch *et al*'(1957) "security communities"; Adler's (2007)"self-Restraint communities"; Adler and Haas's (1992) "epistemic communities"; and Rochon's (1998) "critical communities". This section conceptualizes the concept of community of practice in order to examine the communities of practice and socialization processes that have evolved as a consequence of China's increased engagement in Africa. It further examines the potential communities of practice anticipated to emerge as a consequence of the evolving and increased relations between China and Africa. Whereas some studies in international relations on communities of practice focus on already integrated groups (Schimmelfennig 2000 and 2003; Adler 2007), this study is different. China and African do not have a political union or a security union akin to the European Union (EU) or the North Atlantic Treaty Organization (NATO) which have established constitutions, norms, structure of power and command. The only formal multilateral trade and exchange forum between China and Africa is the Forum for China and Africa Cooperation (FOCAC) which was formed in 2000. Communities of practice where there is no strong established union or integration scheme may become one dimensional largely created and promoted by the most influential and economically powerful partners. China-Africa relations appear to follow this pattern in which communities of practice reflect the policy objectives of China. In Africa, China has adopted a 'soft power' approach using persuasion, incentive and attraction rather than hard power to engage African states. Soft power is used here to refer to "the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country's culture, political ideals and policies" (Nye 2004). However, Beijing's use of soft power is not limited to Nye's original conceptualization which excluded investment, aid and formal diplomacy (Kurlantzick 2006b). Beijing's soft power approach is not based on China occupying a superior position, rather one in which as Holslag *et al* (2007) noted, China wants to be perceived as a *primus inter pares*, an actor that shares many of the constraints and interests of an impoverished region in the South. In other words, China sees itself as a developing country, eager to engage in win-win South-South cooperation.

Whereas in the past China's relations with Africa had produced identifiable and variable practices such as the Julius Nyerere's Ujamma communes in Tanzania and various efforts to establish socialist-led development patterns across Africa, the new emerging communities of practice are different. However, there are some patterns emerging as pointers that the current globalizing dynamic of Chinese expansionism is creating some practices and socialization processes in some African countries.

### **What CoP does China want to create and why?**

China wants to create and promote a vision of global affairs based on the practice of equality and peaceful coexistence as articulated in China's foreign policy principles. For example, the practice of non-intervention in domestic politics of states such as the events which occurred in both Sudan and Zambia. China also hopes to promote the practice of the use of soft power characterized by public diplomacy, as an alternative to hard power which had hitherto characterized Africa's relations with China and the west. One way China has tried to promote public diplomacy is through diplomatic overtures by high ranking officials to Africa and vice versa. As table 1 showed, as many as 483 Chinese delegations visited thirty-two African states from 1958 – 1970, and a corresponding 827 African delegations visited China during the same period. Based on the

‘oil-slick diplomacy which characterized the 1990s and beyond, China’s public diplomacy deepened as shown in table 2.

**Table 1: Diplomatic overtures by Chinese officials to Africa 1958 – 1970**

1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total
20	10	25	39	52	50	87	69	47	17	14	19	33	483
Africa’s Diplomatic delegations to China 1958 – 1970													
44	50	98	58	37	113	103	114	114	57	12	12	15	827

Ogunsanwo, *China’s Policy in Africa 1958 – 1971*, p. 269 – 271

**Table 2: Visit to African States by China’s High Ranking State Officials**

1999	Three Chinese Vice Primers visited 18 African countries
1996, 1999, 2000, 2002	President Jiang Zemin visited six African Countries
1995, 1997	Premier Li Peng visited six Africa countries
2002	Premier Zhu Rongji Visited six African countries
2003, 2006	Premier Wen Jiabao visited seven African countries
2004, 2006, 2007, 2009	President Hu Jintao visited 19 African countries

Holslag *et al* (2007); Brautigam (2010).

These visits are intended to build confidence and group identity and to drum up support in global forums. The need for group identity for coalition and consensus building cannot be overemphasized here. For example, it was support from African and non-aligned countries that China regained its seat at the UNSC in 1971. Also, it was support from the fifteen African states that held seats in the Human Rights Council that lead to the defeat of the US-led proposals against China for its poor record of human rights abuse as a member United Nations Conference on Human Rights in 2004 (Wenping 2008). Furthermore, support from African states prevented fourteen proposals on the need for Taiwan to rejoin or participate in the UN from being approved by the UN General Assembly since 1990. Both China and Africa have used this relationship to ensure fair and equitable economic trade rules in other international forums such as the World Trade Organization (WTO).

Also, China hopes to promote the practice of a ‘one China policy’ for its aid in order to curb Taiwanese independence. For example, the number of African countries that maintain diplomatic relations with Taiwan has decreased to four, namely, Burkina Faso, Gambia, Sao Tome and Principe, and Swaziland continue to maintain diplomatic relations with Taiwan (Blanchard 2010).

**Table 3: Major Chinese trading Partners in Africa 2006 – 2008**

Ranking	2006	2007	2008
1	Angola	Angola	Angola
2	South Africa	South Africa	South Africa
3	Sudan	Sudan	Sudan
4	Egypt	Egypt	Nigeria
5	Nigeria	Nigeria	Egypt
6	Congo Brazzaville	Algeria	Congo Brazzaville
7	Equatorial Guinea	Congo Brazzaville	Libya
8	Libya	Morocco	Algeria
9	Algeria	Libya	Morocco
10	Morocco	Benin	Equatorial Guinea

Source: George, Mark. 2009. China-Africa two way trade – recent developments. *The China Monitor Issue 37*: 4 – 9. [http://www.ccs.org.za/downloads/CCS\\_Feb/China\\_Monitor\\_February\\_2009.pdf](http://www.ccs.org.za/downloads/CCS_Feb/China_Monitor_February_2009.pdf)



China is promoting and creating the ‘one China policy’ through trade, investment and other exchanges. Table 3 shows the concentration of two-way China-African trade on some of the countries that have adopted this policy.

Under the ‘one China’ policy, China’s use of incentive mechanism has built a base of support to raise its international profile in different international organizations forums. For example, through support from African states China was able to thwart Taiwan’s application to join the United Nations on September 21, 2007. Also, using its leverage with African states, China was able to block Japan’s aspiration which was to be endorsed by Asian African Summit in April 2005 to have a permanent seat in the United Nations Security Council (Alden *et al* 2008). Furthermore, African states supported China’s bid to host the 2008 Olympics and the 2010 World Expo. Thus a new partnership on old ties is emerging between China and Africa.

China’s globalization effort in Africa further hopes to promote the practices of the principle of positive-sum (win-win) game in economic activities. China’s reengagement with Africa hopes to promote the use of multilateral forums to promote trade and resolve of disputes. For example, China created FOCAC and the China-Africa Business Council. China’s trade with Africa is growing at a fast rate and its investment in Africa is doing well. China is now the largest trading partner with Africa with a total bilateral trade of \$115 billion in 2010 (Chen 2010). It has overtaken the United States, United Kingdom and France. China has also become the top trading partner of the continent’s most developed country – South Africa- ten years after establishing diplomatic and trade relations; dwarfing Japan, United States, Germany and United Kingdom (Business Daly south Africa 2009). Trade and foreign direct investment (FDI) are important agents for the transmission of Chinese business and invest philosophy and ethics. Similarly, China’s FDI to Africa has grown from a mere \$0.5 billion in 2003 to more than \$9 billion in 2009 (Chen 2010). Like in trade, tables 4, 5 and 6 show the concentration of China’s investment on major African countries that have adopted the ‘one China policy’. Trade and investment would create viable linkages between the African economies and China and through a sustained learning process; African states would hopefully, imbibe Chinese way of doing business and become consumers of ‘made in China’ goods and services. Based on previous relations between Africa and Europe, it is questionable if equitable economic relationships would be established between China and Africa.

**Table 4: Major Chinese Firms in Africa**

	Sector	Major countries of operation
Alcatel Shanghai Bell (ASB)	Telecommunication	South Africa, Nigeria, Angola
ZTC Corp.	Telecommunication	Egypt
Huawei Technologies	Telecommunication	Nigeria, Kenya, Egypt, Tunisia
China National Petroleum Corp. (CNPC)	Petroleum	Sudan, Nigeria
PetroChina	Petroleum	Nigeria
China National Petrochemical Corp. (SINOPEC)	Petroleum	Gabon, Angola, Sudan
China National Offshore Oil Corp.	Petroleum	Nigeria
Henan Gouji	Tourism	Sierra Leone
Shanghai Audio and Video Electronic Co.	Manufacturing/Electronics	South Africa
China Jiangsu Changzhou	Manufacturing/textile	Tanzania

textile Corp. (a Sino-Tanzanian joint venture)		
Shanghai Huayuan Group Corp. (local subsidiary – Enitex Co. Ltd)	Manufacturing/textile	Nigeria
China Road and Bridge Corp. (CRBC)	Construction	Angola
China Complant	Undertakes turn-keys projects financed by Chinese Government	Many countries in Africa

Center for Chinese Studies, Stellenbosch University, “China’s interest and activity in Africa’s Construction and Infrastructure Sectors.

<http://www.ttia-architects.org/downloads/chinese-investment-africa-full.pdf>;

UNDP. 2007. *Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries*, New York: United Nations.

Table 5: Major Recipients of China’s FDI flows (millions of US \$)

Countries	2003-2006
Sudan	357.83
Algeria	197.48
Nigeria	191.01
South Africa	114.88
Zambia	105.36
Congo DR	53.77
Equatorial Guinea	32.73
Ethiopia	30.39
Egypt	29.98
Mauritius	29.34

Compiled from: Statistical Bulletin of China’s outward Foreign Direct Investment (2006)

<http://preview.hzs2.mofcom.gov.cn/accessible/200710/1192783779118.pdf>

Table 6: Stock of China’s FDI in Selected African Countries (millions of US \$)

Countries	2003-2006
Sudan	1020.82
Zambia	719.62
Algeria	458.77
Nigeria	417.64
South Africa	383.54
Tanzania	235.21
Madagascar	173.04
Egypt	168.8
Zimbabwe	162.58
Gabon	141.96

Compiled from: Statistical Bulletin of China’s outward Foreign Direct Investment (2006)

<http://preview.hzs2.mofcom.gov.cn/accessible/200710/1192783779118.pdf>

China's global expansionism seeks to promote cultural exchanges and intellectual discourses through education by establishing Confucius institutes in African countries to promote the study of Chinese language, history, culture, and business etiquette; and the granting of scholarships to African students to study in China. Through the Confucius Institute, China has been establishing language schools, institutes and departments in African educational institutions to encourage the study of Chinese languages and culture. For example, China has established more than twenty Confucius Institutes scattered in thirteen African countries with more than \$3 million provided by the Chinese Government. The Confucius Institute is a Chinese language training organization dedicated to promoting friendship between people from China and the entire world. The first of these schools were established in Kenya 2005 (Wenping 2008; Wei 2009; Xinhuanet.com 2008). There is also a renewed interest and commitment by China to assist African states in offering educational opportunities. China has demonstrated this commitment through the award of scholarships. During 2006 FOCAC summit, President Hu Jintao promised to increase the number of scholars to African students to study in China from 2000 to 4000 per year, and at the fourth FOCAC Ministerial conference on November 2009 the Chinese government promised to increase the number of scholarships to 5,500 by 2012. The role of the beneficiaries of exchange students programs and other structured programs who study abroad in the transmission of transnational communities of practice is very significant (Atkinson 2010). The intent is that these beneficiaries might acquire aspects of Chinese business, political, economic, cultural and medical practices that might become relevant to African countries. Some may one day be in positions of power where they may introduce certain aspects of Chinese business ethic or aspects of Chinese political orientation to their countries. Although the record of inventory of scholarship awarded by China to African students is patchy and inconclusive, tables 7 and 8 provide a limited record.

**Table 7: Proportion of academic levels of African students in China in 2002**

Two-year college students	2
Advanced students	278
Doctoral students	223
Postgraduates (Master Degrees)	539
Undergraduates	525
Others (short-term training)	79

Sisay, Andualem (2009) China sponsor Ethiopian students. AfricanNews.com  
[www.africanews.com/site/list\\_message/2167?data\[source\]=rsm21617](http://www.africanews.com/site/list_message/2167?data[source]=rsm21617)

**Table 8: Chinese Government Scholarships to African Students: Distribution by Selected Countries for different years.**

Angola: As of 2009 there were a total of 50 Chinese scholarships awarded to Angolan students. In 2009 alone, China awarded 23 scholarship; which was a significant increase from the 2008 record of 15 scholarship (Centre of Chinese Studies 2010)
DRC: From 1985 to 2003 DRC Chinese government awarded 5 to 8 scholarships yearly. From 2004 to 2006 the Chinese government awarded 11 scholarships yearly (Centre of Chinese Studies 2010)
Mozambique: The following number of students received scholarship from Chinese government: 2003 (2), 2004 (1), 2005 (1), 2006 (12), 2007 (35), 2008 (22), and 2009 (20) (Centre of Chinese Studies 2010)
Tanzania: It has a cultural cooperation agreement with China signed in 1962 and 1992 respectively in which over the years it has send over 600 students to study in China. In 2008, Tanzania sent more than 70 students to study in China under the Chinese government scholarship program (Centre of Chinese Studies 2010)

Uganda: In 2007 40 Ugandans received the Chinese government scholarship and in 2008 it was 31 (Centre of Chinese Studies 2010)
Ghana: In 2006 20 Chinese government scholarships were awarded to 20 students; 34 in 2008, and 35 in 2009 ( <a href="http://www.enownow.com/news/printable.php?no=4514">www.enownow.com/news/printable.php?no=4514</a> <a href="http://www.allafrica.com/stories/printable/200808250817.html">www.allafrica.com/stories/printable/200808250817.html</a> )
Kenya: In 2005 12 students received Chinese government scholarships, in 2008, 42 Kenyan students received scholarships from Chinese government; and in 2009 it was 38 ( <a href="http://www.english.people.com.cn/200508/14/print20050814_202164.html">www.english.people.com.cn/200508/14/print20050814_202164.html</a> <a href="http://www.ke.chineseembassy.org/eng/sbgx/t508984.htm">www.ke.chineseembassy.org/eng/sbgx/t508984.htm</a> <a href="http://www.wei.moe.edu.cn/article.asp?articleid=11790">www.wei.moe.edu.cn/article.asp?articleid=11790</a> )
Ethiopia: Since 2006 from 40 to 50 Chinese government scholarships have awarded to Ethiopian students to study different courses at various levels (Sisay Andualem (2009) ‘China sponsor Ethiopian students’, AfricanNews.com <a href="http://www.africanews.com/site/list_message/2167?data[source]=rsm21617">www.africanews.com/site/list_message/2167?data[source]=rsm21617</a> )

Centre of Chinese Studies 2010, [www.ccs.org.za/wp-content/uploads/2010/03/ENGLISH-Evaluating-China-FOCAC-commitments-to-Africa-2010.pdf](http://www.ccs.org.za/wp-content/uploads/2010/03/ENGLISH-Evaluating-China-FOCAC-commitments-to-Africa-2010.pdf) A report prepared for the Rockefeller Foundation. Accessed March 14, 2010.

Besides offering scholarships to African students, China also provides short-term training programs to professionals and legislators from Africa. For example, China pledged to train 15,000 African professionals from 2007 to 2009. Between 2003 and 2006, China’s National Congress exchanged legislative delegations with Botswana, Gabon, Kenya, Mozambique, Nigeria, South Africa and Uganda. China also has seats in various cooperation schemes in Africa such as the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS) and the Southern Africa Development Community (SADC) and has a governor on the board of the African Development Bank (ADB) and a special representative in the African Union (AU). China’s participation in these African forums might help create certain commonly shared practices with African states.

China’s practice of cooperation and integrated investment strategy may appeal to African countries. China is seriously investing in many African countries, especially in mining and manufacturing sectors in resource-rich countries. As of 2010, six special economic zones (SEZs) were under construction Egypt, Zambia, Nigeria (2), Mauritius, and Ethiopia. The construction of the Algeria’s SEZ has been suspended due to unexpected changes in the country’s legislation on foreign investment (Brautigam and Xiaoyang 2011). Although these SEZs would host investments from any country, China hopes to use the SEZs as conduit for the diffusion of Chinese technology and industrial practices.

**Table 9: Major projects in Africa contracted by Chinese Firms (in US\$ million)**

Country	Project	Contract Value \$ million
Algeria	Central and western sections of East-West Expressway	62.5
Angola	Social Housing	35.4
Libya	Surt-Tripoli section	24.2
Sudan	Merower Dam	9.3
Equatorial Guinea	Transmission and distribution project of Djibloho Hydro-power station	6.5

Source: FOCAC (2011)

Table 9 shows some of China's major projects in Africa. China hopes to use these infrastructural projects, many of which are turn-key and technical cooperation projects, to shape the nature of development in Africa and to build goodwill and leverage to gain further access to Africa's vital resources.

China is using the lure of FDI to make African states to open their markets to Chinese imports and adopt Beijing's brand of state-led capitalism to become a development model. For example, many African states cite the 'Chinese model' of economic and political development as their preferred course (Wolfe 2007). Although Beijing avows to non-interference in domestic governance, there are indications that it is influencing some African states to follow its path to development. For example, Adam Wolfe suggested that China's acceptance to host the African Development Bank's (ADB) meeting in 2007 in Shanghai was among other things to help member states to learn more on how China achieved its rapid economic growth while maintaining a corrupt and non-representative political system (Wolfe 2007). China's cooperation and integrated investment strategy might be appealing to some African countries like Sudan, Angola, Congo Brazzaville, Ethiopia, Gabon and Zambia (Bosshard 2008).

On the down side, certain business practices of China might produce negative perception and affect how businesses are conducted in Africa. For example China's practice of secrecy in loan contracts predisposes the system to corruption. Like Western donor countries which have development agencies that coordinate aid programs under one umbrella organization (USAID, the UK Department for International Development (DFID)), China has multiple and fragmented agencies that administer its aid. The process is therefore perceived to lack openness and proper scrutiny by international agencies and civil society organizations. This has led to accusation of lack of transparency and corruption in contracts and bidding processes of China's aid-provided infrastructural projects in Africa. Since China is ranked high on the Transparency International Index of countries who use corrupt practices to promote and secure business, it is more likely to ignore corruption or participate in it in dealing with corrupt regimes in Africa. Another down side of China's business practice which may unsettle and destroy the long history of trade unionism in Africa is its culture of lax attention to workers' rights and environmental governance. Historically, trade unions have played important roles in the decolonization and liberation efforts in Africa. It is believed that China's proclivity to hire Chinese labor over African workers and its lax labor and investment practices; and employment conditions which have become issues of concern in Cameroon, Zambia and Nigeria may adversely impact this long history of labor union activism (Quist-Arcton 2008; Obiorah 2007; Wolfe 2007; Ngome 2007; Shapi 2005).

## **Conclusion**

For many decades Europe has dominated economic, social, political and cultural exchanges in Africa, and as such African states have internalized certain European ways of doing things. The twenty-first century has seen a shift towards the United States and China. Given the scale and scope of China's expansion and its global outreach in Africa, it is expected that China's outreach programs would carry with it certain aspects of China's business, cultural, social, educational, environmental and governance practices which may appeal and influence the behavior of African states. Although it is still early to measure the transmission and impact of China's expansion, its offensive charm is affecting the way governance and business are done in some African states.

However, there have been backlashes to some of the China's socialization processes and practices. For example, China's business practices in Zambia emboldened the opposition candidate, Michael Sata, to even call for renewal of ties with Taiwan. The practice of dumping cheap good, poor working conditions, and lack of environmental governance have not only led to

riots but increasing warning from some African leaders, including President Thabo Mbeki of possible colonization of Africa by China. There are also serious concerns expressed by non-governmental organizations (NGOs) and foreign governments about the violations of human and employment rights, and environmental governance by Chinese firms in communities where they operate in Africa (Hillary 2007; CFR 2006; Lord Holme of Chaltham 2007). There have been reports by NGOs in Nigeria and other parts of Africa of Chinese metal working and logging companies not following proper forest and environmental governance (Canby *et al* 2008; Obiorah 2007). However, given the magnitude of Chinese investment in Africa, the degree of trade, the deepening and penetrating exchanges in human and social capital, the twenty-first century would create viable communities of practice between China and Africa.

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## **Chinese Investments in Canada and Africa: Case Study of International Relations theories on China's Rise and Energy Politics**

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### **Introduction**

In recent years, the emerging wealth of China has drawn worldwide attention. China surpassed Japan to become the second largest economy in the world in 2010. Meanwhile, it holds the largest foreign reserve at a total of over 2.8 trillion dollars and is owed a national debt of over one trillion dollars by the United States. The economic rise of China looks almost certain so far, but confusion still lingers about the nature of such rise and implications for the international order that is currently dominated by U.S. hegemony.

Meanwhile, with a deep pocket, China has invested vigorously on a global scale, including Africa and Alberta, Canada. There has been concern regarding the implications of such Chinese investment for energy security in the U.S. Moreover, it is predicted that as the two largest consumers of fossil fuel, the U.S and China will consume 35% of the global total by 2020. What is the most likely nature of the bilateral relationship between the U.S. and China given the rise of China and the emerging issue of energy security? Will the future bring convergence toward cooperation, stability, and peace or deterioration and perhaps to war?

Different schools of I.R have presented different interpretations on the likely prospects and implications for bilateral relations between the U.S and China in cases of Chinese investments in Africa and Alberta oil sands. Hence, the paper is divided into two major parts. The first part is devoted to an empirical overview of the Chinese investments in Africa and Alberta by outlining respectively the strategic background behind the Chinese investments and the features of Chinese investments. The second part attempts to apply the theoretical foundations of dominant IR theories in relation to China's rise and energy politics into the case studies of Chinese investments in Alberta and Africa.

### **Backgrounder: China's Economic Growth and Energy Demand**

For the past three decades, the Chinese economy has been growing at over 9 percent annually, thus generating surge in China's demand for energy consumption. Oil consumption, which in 2010 stood at roughly 9 million barrels per day (bpd), is expected to grow by 4-5 percent a year to reach 10.6-11.3 million bpd in 2015, and 11.8-13 million bpd in 2020 according to the Energy Research Institute of the National Development and Reform Commission (NDRC), China's economic planning agency. By 2025, it is estimated that China and the U.S. will consume approximately 35 percent of the world's oil production.

There are mainly two factors behind the huge demand for energy and oil consumption. Firstly, now virtually labeled the "factory of the world", China boasts an industrial structure that is export-oriented, labor intensive and energy-driven. The heavy energy waste accompanying the huge usage only deteriorates the scenario. As acknowledged by Zhang Guobao, Deputy Commissioner of China's National Development and Reform Commission, to generate every

10,000 yuan of GDP (C\$1,519), China uses as much as three times the energy as the global average<sup>14</sup>. Secondly, as China's auto industry is projected to grow tenfold between 2005 and 2030, China will then boast the largest number of cars in the world, with oil consumed in transportation accounting for half of the total oil consumption.

As a result of the increasing oil demand and the fact that China's major domestic oil fields have peaked in output, China has become increasingly dependent on imported oil. It has been a net oil importer since 1993 and is now the second largest oil importer after the United States. Foreign imports are estimated to make up 65 per cent of total oil consumption by 2020, up from the current mark of around 54 percent, meaning China will need to bring in an additional 2.8-3.6 million bpd of foreign oil in 10 years time.

One major strategic implication of the enormous energy demand and dependency on imports is for China to enter energy and resource rich countries to both defend existing oil supplies and find new energy reserves. A May 1997 policy paper by former Premier Li Peng kick-started the official strategy of "going out" that encouraged Chinese involvement in the exploration and development of international oil and gas resources to achieve the strategic objective of stable, long-term supplies of oil and gas (OECD/IEA, 2000). Since then, China has formed extensive energy trade and investment links with Russia, Africa, Latin America and North America. The Middle East has been, and will continue to be, China's largest source of energy. More specifically, this paper looks at two cases, namely the Alberta oil sands and African energy sector that have attracted increased Chinese investments recently.

### **Chinese Investments in Alberta Oil Sands: An Overview**

#### *Importance of Oil and Oil Sands*

Although oil is not the sole source of energy, the ever more urgent need of it is not likely to decline. The reasons behind the judgement lie in both the current energy mix of Chinese consumption and relevant strategic considerations. Although coal occupies 70% of China's current energy consumption, the percentage has steadily decreased since the 1990s, and is going to keep dropping due to the serious pollution and waste problems associated with its usage. Officially acknowledged statistics have demonstrated that, Chinese coal mines have wasted two tonnes of coal in producing every tonne in the past 50 years, resulting in the loss of 65 billion tonnes of coal to produce 35 billion tonnes from 1949-2003. As a result, the Chinese government has decided to replace it with more oil and gas. Even before the Japanese earthquake last spring, nuclear energy had occupied a slight proportion of the energy supply. After the outbreak of the earthquake, the debate on safety concerns regarding the nuclear energy has been intensified, thus further reducing the prospects of it replacing traditional energy. Clean energy such as hydro, wind and solar energy promises great potential for future exploration for their green traits, but remains marginal within the energy mix, largely due to the technical limits involved.

Within the oil resources, the Alberta oil sands are particularly attractive to Chinese investors mainly for three reasons. Firstly, they carry very promising potential as future energy reserves. According to the Canadian Association of Petroleum Producers (CERI), the Alberta oil sands are one of the largest deposits of oil in the world, with an estimate of 173 billion barrels of oil reserves, ranking second only to Saudi Arabia. The potential reserve seems more attractive to investors awash in various projects of "peak oil" and "resource depletion" with respect to conventional oil supplies. Secondly, they are particularly attractive to Chinese investors because the resources are not nationally owned and are therefore open to private investment. The Alberta oil sands are estimated to represent 52 percent of the world's total crude resources available to

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<sup>14</sup> Chen, "Fagaiwei: Zhongguo Mei Baiwan Meiyuan GDP Nenghao Shi Riben 9 Bei."

private investors. Thirdly, global oil prices represent another reason why Chinese interest in Canadian energy has grown lately. After a brief drop to lows in the US\$40 per barrel range during the economic crisis, oil prices climbed back quickly and stabilized in the US\$70-\$80 range. Various forecasts place the price of oil in coming years at US\$80-100 per barrel, a level that can sustain profitability for the extraction of Alberta's oil sands, and thus justify long-term investment in the oil sands.

*China's Investments in Oil Sands: A Review*

It is based on the strategic considerations regarding future growth need and the significant status of oil and oil sands that China has begun its investments in the Alberta oil sands, an undertaking that began as early as in the 1990s. This part is dedicated to the summary of the most important features as can be observed from the Chinese investments in the oil sands so far.

First of all, in terms of scale, major Chinese companies have purchased Canadian energy assets on a notably large scale. As of May 2011, Chinese investment in the Alberta oil sands in the past two years has topped \$13 billion from the likes of energy giants Sinopec, CNOOC and PetroChina. In 2005 CNOOC bought a 17% stake in Canadian oil sands firm MEG Energy. In 2009, PetroChina purchased a \$1.9-billion-Cdn lease in Athabasca oil sands. In February 2011 it paid C\$5.44 billion (\$5.57 billion) for a 50% stake in Encana Corp.'s natural-gas assets in western Canada. In May 2010, Penn West, the largest producer of light and medium gravity oil in Canada, formed a partnership with China Investment Corp. (CIC), the state-run sovereign wealth fund, involving a \$1.25-billion investment to jointly develop a thermal oil sands project in the Peace River region of Alberta. In 2010 Sinopec paid \$4.65 billion to acquire a 9% stake in Syncrude Canada Ltd., the largest oil sands producer in Canada, marking the largest investment by a Chinese company in a North American energy project. Sinopec also holds a 50% stake in another oil sands venture, Total E&P Canada's Northern Lights project. More recently, CNOOC agreed to take over Canadian oil sands developer OPTI by full ownership for about \$2.1 billion in July 2011.

Since it takes not only upstream production of oil products but also the accompanying infrastructure to transport the products to the terminal markets, the Chinese have also shown extraordinary interest in investing in the construction project of Northern Gateway Pipeline, a pipeline from Alberta to the western coast of British Columbia, which would directly facilitate the shipment of oil to the Asia Pacific. The project is mainly undertaken by Canadian company Enbridge Inc, and has already attracted the total investment of US\$5.5 billion from China's Sinopec, despite the fact that the project still faces tough opposition on grounds of potential leakages, environmental damage and human rights concerns.

Second, in terms of investors, all Chinese investments in oil sands have come from the major state-owned enterprises or the sovereign fund. On the one hand, the top three Chinese energy companies have carried out further reforms to become more adaptable to a wide range of challenges in foreign environment and to cope with competition on the international stage. Over the years they have become bigger, more comprehensive and integrated multinational corporations with increasing competitiveness on global market. According to the latest ranking, Sinopec ranks 5<sup>th</sup> and PetroChina 6<sup>th</sup> among Globe Fortune 500. On the other hand, the state-owned nature of the Chinese energy companies has led to intense concerns on the political involvement of the Chinese government and hence concerns over national security. The federal government of Canada, for instance, has been historically wary of overly dominant Chinese control of Canadian resources. Its rejection in 2005 of China Minmetals Corporation's efforts to buy Noranda Inc., a key player in the Canadian mining industry is a case in point.

Thirdly, the special nature of Chinese investment and the suspicion of Chinese motivations have directly affected the forms of investments. Despite their large capital scale, the majority of Chinese investment in oil sands has taken the forms of joint ventures and minority partial stakes in collaboration with American, Canadian, or other international companies. This seemingly insignificant feature has showcased the cautious and sensitive attitude on the part of the Chinese investors with the hope of not arousing suspicion and opposition.

### **China's Investments in Africa: an Overview**

#### *Strategic Importance of Africa in China's Global Strategy*

Generally speaking, both geopolitical and economic factors have loomed large behind China's renewed interest in engaging with and investing in Africa. Emmanuel Obuah (2008) identifies two trajectory periods in Sino-Africa relations, during which China's strategic focus has changed from ideology-driven political activism of the Cold War era to profit- and resource-driven strategy post-Cold War.

Firstly, the political dimension of the upsurge in interest could be traced to as early as 1950s. One of the consistent driving forces in China's relation with Africa is the need to curb Taiwanese independence. Although this was a very significant factor in 1980s and 1990s, it has to some extent decreased as only five African countries continue to maintain diplomatic relations with Taiwan. It was largely due to the fact that China's diplomatic interventions, financial incentives, aid proposals, and military assistance to Africa have been premised on receiving countries' abandoning diplomatic relations with Chinese Taiwan. This strategy has thus proven successful.

Another political consideration involves the vital role of Africa in China's accession in international status. Africa accounts for almost half of the no-aligned nations and a full third of United Nations membership and China needs the support of these countries to maintain its international status and opposition to US hegemonism. When Western powers ostracised China in the Tiananmen square incident in 1989, the Chinese leadership subsequently transformed the view of Africa in China's broader foreign policy from 'one of benign neglect to one of renewed emphasis...' (Taylor 1998, 447). Africa has risen to a critical political ally in China's international strategy, with South-South cooperation offering an avenue for its implementation.

To this end, China has on the one hand long stressed its commonly shared roots with African nations as a developing country rather than a Western state, and as such 'the symbolic attraction of China, a once impoverished country victimised by Western imperialism and held back by its own pursuit of disastrous forms of socialism, clearly resonates with African elites looking for a positive development model from the Third World' (Alden 2005, 156).

On the other hand, China has been sticking to the Five Principles of Peaceful Coexistence as the guide for its policy towards Africa, which are respect for each state's sovereignty, a pact of mutual non-aggression, non-interference in the internal affairs of other states, equality and mutual benefit, and finally, peaceful coexistence with states by seeking common interests. The traditionalist approach of non-interference accords well with the outlook both dictatorial and democratically elected leaders in Africa.

Economically, there is little doubt that the urgent need for oil has been a major economic impetus in the recent surge in Chinese activity in Africa (Shinn and Eisenman 2005, 7). In this sense, both Africa and Alberta have been part of China's global energy hunting strategy. Yet, Africa has certain unique advantages to offer that are not shared by Canada. The literature on "China in Africa" points to a number of factors that pull China and Chinese enterprises to Africa, including the abundance of natural resources, the large untapped markets, the lack of competitors, and the

opportunity to learn to internationalise (Alden and Davies 2006, Kaplinsky and Messner 2008, UNCTAD 2007a, Taylor 2009).

Chinese policies in Africa are also driven by long-term strategic interests in sustaining its economic development through the acquisition of markets in Africa. With a population of 850 million, Africa constitutes an immense market for Chinese manufactured goods as well as provide production platforms for Chinese companies. This has formed an interesting contrast with the Alberta case, where the Chinese investors in oil sands target mainly the U.S. market in the near term as well as home market in the long run. The local Canadian market, on the other hand, figures less in China's investment strategy.

#### *China's Economic Presence in Africa*

Due to long-term instability in the Middle East, China decided to turn toward African countries, which have abundant oil at relatively low cost. China now imports 28 percent of its oil from Africa, mostly from Sudan, Angola, Congo, and Nigeria (Liu 2006). China's future oil and natural gas imports will depend heavily on the Persian Gulf, Africa, and Latin America as well as on Central Asia and Russia via overland pipeline systems.

According to the Chinese Ministry of Commerce, China's FDI in Africa has increased by 46% per year over the last decade. China ranks fourth among the Asian investors in Africa in terms of FDI stock, after Singapore, India and Malaysia (UNCTAD 2007a). At the sectorial level, Chinese FDI increasingly dominates investments in all sectors in many African countries, with investments in the oil sector receiving the lion's share of public and academic coverage (Klare and Volman 2006). For instance, the three leading investors in Africa are State-owned oil companies: China Petrochemical Corp., China National Petroleum Corp. and China National Offshore Oil Corp (Kiggundu, 2008). At the regional level, China is active in almost every part of sub-Saharan Africa, seeking exploration rights and ownership of facilities and securing trade agreements. Yet, the distribution of Chinese investments varies in region. With respect to oil, China's focus has rested on Angola and Nigeria, which are the largest oil producers on the continent.

At the firm level, most Chinese enterprises investing in strategic sectors, such as oil, minerals or infrastructure, are state-owned (by either the central government or local governments-- Chen and Jian, 2009) and receive government grants or loans from State-owned banks. These enterprises often manage large investment projects (Kaplinsky and Morris, 2009). More than eight hundred Chinese state-owned enterprises are actively involved in Africa, and have invested more than \$6 billion in nine hundred African projects, notably in the oil sector (Mills 2008). Chinese medium-to large-sized enterprises are found mainly in the manufactured goods, telecommunications and wholesale trade sectors. Small firms are found mostly in the light industry and retail sectors. The texture of the Chinese companies has important implications for the investment choices they make in Africa and elsewhere alike. Kapinski and Morris (2009) stress that with the exception of SMEs in search of quick, short-term profit, Chinese firms are less averse to risk than their Western counterparts and less constrained by environmental and social concerns. Similarly, Besada and others (2008) emphasize that FDI from Western countries is dominated by private firms with limited risk appetite and little long-term commitment, while Chinese investments are made with the intention of establishing long-term relationships with governments. Therefore, it is the risks and challenges persistent in Africa that have prevented the major international companies from tapping their full potential and enabled the Chinese to establish themselves relatively easily there.

Another unique feature of the Chinese investments in Africa has been their close linkages with trade and development assistance. China has adopted a traditional aid-for-oil strategy in Africa by offering poor countries comprehensive and explorative trade deals combined with aid rather than the development approach used by Europe, Japan, and the United States. As a result, China's presence in Africa takes a multiplicity of forms, spanning migration, tourism, peacekeeping operations, development aid (including debt relief), trade (including tariff exemptions) and investments (both state and privately driven) (Kragelund 2009). Take aid and assistance for example. China is an important provider of aid, financial assistance, preferential/soft loans and debt cancellation for African countries.

### **Realist IR theory on China's Rise and Energy Politics**

International relations theories have provided useful referential frameworks to study the Chinese investments in Alberta and Africa, by addressing the key issues of China's rise and energy security. This section examines one particular IR theory that dominates the literature on the aforementioned issues, namely the realist IR theory and its interpretations of the broader issues concerning China's rise and energy politics, as well as its particular applicability to the case studies of Chinese investments in Alberta and Africa.

#### *On Rise of China*

The realist view of international relations is based on the assumption that the world is anarchic and states must strive to maximize their power to ensure national security in a self-help international system. International politics is perceived as a struggle for power. Realists see power as a zero-sum game where one actor's gain is another's loss.

Dictated by such views among both classical and neo-realists, the American perspective tends to perceive the economic and military progress China has achieved since the late 1970s as a rising threat to American interests. In terms of policy prescriptions, the classical realist responses are dominated by containment strategies that are aimed at balancing against the emerging power of China, and slowing its economic and military power increases.

#### *On Energy*

Despite the profusion of theoretical approaches and the evident importance of energy in international relations, there has been strikingly limited direct application of IR theories to understanding energy-related conflicts and modes of collaboration and competition. As Brenda Shaffer (2009, 18) points out, the principal journal in international relations and security studies, *International Security*, has only published eight articles devoted to energy in its 30 year history. Admittedly, journals including *Foreign Affairs*, *Foreign Policy*, *International Affairs* and *Washington Quarterly* do often have energy-related articles but these journals are primarily policy-related rather than theoretical journals.

Much of the literature on the politics of international energy adopts implicitly a realist and geopolitical theoretical approach. As exemplified in the works of Michael Klare (see Klare 2001, 2002, 2003, 2004, 2008), probably the best known writer in the field of IR and energy, the key underlying assumptions and arguments of this approach include the following: 1) access to and control of natural resources, of which energy is the most critical, is a key ingredient of national power and national interest; 2) energy resources are becoming scarcer and more insecure (drawing often from the 'peak oil' thesis and the 'resource curse' and 'resource wars' literature); 3) states will increasingly compete for access and control over these resources; 4) resources are becoming a major source of conflict between the most powerful states: US, China, Russia, EU, Japan, India. Conflict and war over these resources are increasingly likely, if not inevitable.

The realist-driven conflictual approach to energy underlay for instance, the concerns of the U.S. Congress that CNOOC's bid for UNOCAL in 2005 would, if successful, represent a critical threat to US national interests and energy security. The approach also feeds Western concerns over the rise of China, and the fears of Chinese expansion in Central Asia, Africa, Latin America. As the case of Alberta oil sands here exemplifies, this also applies to U.S. concerns over the Chinese investments in oil sands.

#### *On Oil Sands Investments*

The application of realist perspective in the case of oil sands is most relevant to the discourse on such issues as energy security and national security. Dictated largely by the realist doctrine, access to natural resources and energy in particular has become a key ingredient of the national interest for the U.S. Maintaining energy security, which practically became synonymous with national security interests, has been among the top priorities of the George W. Bush presidency. As Senator Don Nickles put it: "We cannot have national security without energy security. The two go hand in hand." (McCullum, 2006)

The critical importance of oil supplies from Canada has reflected the salience of geopolitical factors in energy security. Given the political uncertainties hovering over such supply lines as the Middle East and Venezuela, the U.S. steadily increased its oil imports from Canada, which is also largely facilitated by the proportional sharing clause on energy that had been incorporated in the North America Free Trade Agreement (NAFTA). Under such circumstances, Canada has assumed an increasingly significant role in U.S. energy security. Since 1999, Canada has been the largest supplier of U.S. crude and refined oil imports.

Moreover, the U.S. is also the largest investor in the Alberta oil sands, with a control of between 40% and 50% of Alberta's oil, and therefore has long considered the oil sands its own property. China's increasing presence in the oil sands is seen as constituting a provocation to the U.S. authority and posing direct threat to its national security. In order to protect their own interests, U.S. officials constantly monitor talks between the Chinese and various Canadian oil companies. As Ken Chung of the Alberta Research Institute wittingly observes, "the biggest concern for the Chinese in the tar sands is the Americans, just as the biggest concern for the Americans is the Chinese."

#### *On Chinese Investments in Africa*

Similar to the case of Alberta oil sands, hardcore realists have come to see resource security as undoubtedly the biggest driving force behind China's increased involvement in Africa. They argue that, as an aspiring world power, China is vying to attain material preponderance in order to increase its power and further its campaign for super power status. The security dimensions of this and the suggested possibility that this will provoke conflict in the future are addressed by Pe'ter Marton and Tama's Matura's study, which notes that Western reactions to China's increasing investment in a number of countries in Africa are often conceptualised as symptoms of a 'honey pot' conflict. It is commonly held that China is some sort of voracious 'dragon' intent on grabbing as much of Africa's natural resources as possible and a pivotal actor in the so-called new scramble for Africa. Its presence in Africa is perceived as one element in its 'global rise' (Gu et al, 2008), and as a threat to US hegemony, as well as complicating 'the tussle between the EU and the USA over "who controls Africa"' (Campbell 2008, p. 91).

#### *Limits of Realist Perspective*

Despite its predominance in relevant discourse, the realist conflict approach to both the rise of China and energy politics has met with powerful criticisms on the following grounds.

Firstly, realism tends to be too state-centric, with too much attention accorded to states and inter-state competition and too little attention to the autonomous role of transnational actors (such as the transnational oil and mining companies) and of local actors. With respect to the Chinese investments in oil sands, too much attention so far has been focused on the national security implications associated with the Chinese involvements in the energy sector. In contrast, too little attention has been paid to a fairer analysis of the motivations on the part of Chinese energy companies involved. Although the state-owned companies do receive guidance from the Chinese government in making investment choices, their motivations of investments are nevertheless dominated by commercial as well as political considerations. For instance, while the ultimate purpose of Chinese oil sands investments is to serve the domestic market, the more immediate purpose for the investors lies in gaining access to the local North American market.

A second common criticism is that realism tends to be overly deterministic. The assumption that resources are scarce and that inter-state conflict is inevitable are generally taken as given in these accounts. However, there are varying ways in which international actors can decide to interact; nor do they have to resort to conflicts and even war as solutions, for there can be more cooperative alternatives. The Chinese side of argument in the oil investments spectrum particularly resonates with this criticism. They tend to regard the overarching worldview of conflict as over-blown and deny that China's hunger for oil is increasing friction with the United States, claiming that "although oil trade plays an important role in every field, it has a limited influence in Sino-American relations." China's record of overseas investments has demonstrated the deliberate attempt to keep a low key profile and avoid direct competition or conflicts with the United States. Although China's search for oil makes it a new competitor to the United States in areas such as in Middle East, China has more often than not consistently avoided the United States in its global hunt for resources, and tended to transact in markets from which the United States is absent, such as Africa and Central Asia. Thus in many areas the two countries are not really in direct competition (Ogle, 2010). This has been further testified by the aforementioned African case. In fact, although Chinese involvement has stimulated the interest of the European powers and the United States, they had been neglectful of Africa or took it for granted. In the case of oil sands investments, the fact that most Chinese investments have taken the form of joint venture and minority stakes despite their large-scale nature again testifies to the attempt to avoid controversy and conflict.

To sum up, the realist interpretations of the rise of China, energy politics and Chinese investments in both Alberta and Africa have focused exclusively on a conflictual approach on the part of the U.S that emphasizes threats of its national and energy security. While assuming unquestionable dominance in discourse on the issues of concern, it has been under attack by other theories such as the liberal school on solid grounds. The following section on liberal alternative interpretations thus serves to challenge the validity of realist arguments.

### **Liberal Perspective on China's Rise and Energy Politics**

#### *On Rise of China*

Unlike realist assumptions that stress structural determinism of state actions, liberalism believe the behavior of a state is largely determined by domestic factors such as culture, ideology and political structure. At its core, the democratic peace theory predicts that political liberalization decreases the likelihood that a state will resort to the use of military force against either other democracies or other states in general (Kant 1795; Rousseau 2001). In China's case, classical liberalism predicts that marketization and economic growth in China bring about political democratization in the long run (Lipset 1959), thus reducing the likelihood of it starting war. Hence, the economic rise of China will not pose a threat to international peace.



Liberal institutionalism, or neo-liberalism emerged in the 1980s in response to neo-realism, and focuses on the role of international regimes in promoting cooperation. In its view, states need not be democracies in order to induce cooperation within international institutions. Regimes and institutions, based on liberal principles of transparency and legally binding norms, could promote cooperation and reduce military conflict (Keohane 1984, 1986; Baldwin 1993).

According to the liberal views, the increased integration of China into the world economy has led to not only increased levels of economic interdependence between China and the rest of the world, but also economic vulnerability, which may ultimately lead to shifts in policy. The more deeply embedded China becomes in the web of regional and global institutions, the more its leaders' beliefs and expectations may conform to the emerging universal norms those institutions and organizations represent. It thus predicts that as long as China, whether democratic or autocratic, is entrenched within international regimes, it will be able to establish peaceful and cooperative relations with the rest of the world.

Besides, the interdependent nature of global economy has significant implications for the bilateral relations between the United States and China. The two countries share not only a common interest in a stable international environment, but also a mutually important economic relationship, both of which make it impossible for military concerns to escalate.

#### *On Energy Politics*

A common liberal assumption on energy is that the development and enlarged membership of liberal international energy regimes, such as the IEA or the Energy Charter Treaty, facilitates international cooperation. It is thus often suggested that China should join the IEA. Besides, as far as U.S.-China relations are concerned, subsequent membership in IEA would greatly solidify the efforts of the two largest energy-consuming nations to better regulate energy stewardship. Moreover, according to Ann Myers Jaffe, big consumers can best protect their interest in keeping oil supplies steady and prices predictable by joining forces to counterweigh the influence of producers. Therefore, despite the continued existence of competition-inducing mechanisms of China's economic growth and domestic political institutions, the mutual gains from an expanding economic relationship enhanced by international energy regimes will remain the key peace-inducing force at work in U.S.-China relations.

#### *On Oil Sands Investments*

The large-scale injections of Chinese investment in Alberta oil sands have to a large extent benefitted from the welcoming attitude on the part of Canada. This welcoming attitude reflects a rational choice as made by a typical supplier in global markets. For Canada, extensive trade ties, particularly in energy, highlights the integrated nature of the Canadian and US economies. But the close trade ties also make Canada highly vulnerable to the impact of economic well-being as well as climate and energy policies in the US. The worrisome economic recession in 2008 and debt crisis in 2011 that swept the U.S., accompanied by the heated national debates over the desirability of clean energy versus tar sands add to the economic and political uncertainties and vulnerabilities for continued overdependence on the U.S. for energy trade and investment. The Chinese investment increases in oil sands will mean a much-needed diversification of markets to avert possible risks, and to enhance consumer competition.

From the Chinese perspective, energy has become the most important sector to sustain the high economic growth where foreign capital is playing an increasingly significant role. Therefore, China's efforts of increasing outward investment in this area can be interpreted as efforts to reduce dependency and avert vulnerability. The need to reduce vulnerability accounts for both the

intense interest Chinese investors have shown in pipeline construction projects and the strategic purpose of providing long-term energy supplies to the domestic market.

#### *On Investments in Africa*

The neo-liberal interdependence hypothesis also applies to relations between Africa and China. As Wilson (2005, 7) points out, China and Africa have complementary economic and commercial needs. Africa is short on capital, has a low manufacturing base, is highly import dependent, lacks basic infrastructures and exports a lot of natural resources. China has ample investment capital, a huge manufacturing exporting base, is willing to build infrastructure and imports a significant amount of petroleum and other natural resources.

Moreover, from the institutionalist view, it is clear that China is attempting to increase position itself 'at the helm of a coalition of African developing countries' (Muekalia 2004, 10). In doing so, China is hoping to leverage its position on the UN Security Council as well as improving its bargaining power in other international institutions. Obuah (2008) further proposes a more integrated approach that holds contemporary Chinese relations with Africa have reflected the neo-liberal realpolitik or the Beijing consensus which is driven by power, cooperation, and more importantly by an unprecedented need for resources in a fast growing competitive global economy.

In terms of relations between China and the US-led Western powers in African continent, Peter Kragelund (2009) posits that China's rise in Africa could not have taken place without the assistance of Western donors. This has resonated well with the liberal interdependence theory on international relations.

To sum up, the liberal perspective has provided powerful explanatory alternatives to the realist interpretation in that it not only displays more confidence in progress and cooperation, but also identifies possible ways to enhance collaboration. In line with the liberal logic, China and the United States, as the two largest oil importers in the world, could follow a strategy of cooperation in their oil exploration ventures in both Alberta and Africa.

#### **Conclusion**

The empirical issues of Chinese investments in Alberta and Africa have represented the increasing important role China is playing in international arena. Although the two cases selected in the paper they diverge in respective historical, political, social and economic contexts, and hence call for different investment strategies on the part of the Chinese state and companies, they nonetheless share some common traits that make them worthy destinations of Chinese FDI. Ultimately, they complement each other in overall Chinese overseas investment strategies.

Politically, the African continent has remained a critical political ally for China in international institutions, which is to remain the case for foreseeable future. It also poses more political risks and challenges, especially during emergencies such as the outbreak of Arab spring in 2011. The linkages between Chinese actors and local military regimes in Africa have also increased instability, which has aroused much controversy. On a related note, the relatively more stable environment in Alberta and Canada has made a proper alternative to Africa in Chinese investment choices for risk management. Economically, while the Chinese investments in both Africa and Alberta share the strategic targets of meeting domestic demand for energy, they also reflect regional-based shorter term targets, respectively African and American market. Altogether, both cases have reflected the determination of the Chinese investors in long-term commitments in energy sectors instead of short-term risk-averse preferences.

In order to effectively contextualize and theorize the aforementioned empirical issues concerning Chinese FDI, this paper has applied IR theories in the key issues involved, i.e. the rise of China and energy politics, and tested their respective validity through the two case studies. The dominant IR theoretical approach to energy issues, namely realist interpretation of the rise of China, energy politics and Chinese investments has focused exclusively on a conflictual approach on the part of the U.S that emphasizes threats of its national and energy security. Its validity has been challenged on solid grounds by alternative IR theories, such as the liberal perspective, another major IR theory as well as critique of realist IR.

The liberal perspective has provided powerful explanatory alternatives to the realist interpretation in that it not only displays more confidence in progress and cooperation, but also identifies possible ways to enhance collaboration. Furthermore, the economic interdependence perspective as provided by the liberal theory does a good job in linking the implications of Chinese investments in oil sands with the plural parties involved, i.e. U.S., Africa and Canada.

To sum up, as this paper has demonstrated with the case studies of Chinese oil sands investments and investments in Africa that the dominant realist discourse on China's rise and energy politics is far from solid. Instead, the less-conflict oriented approaches espoused by the liberal perspective can serve as viable alternatives by better accounting for, and more importantly, enhancing the bilateral relations between China and the U.S.

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