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Is Nigerian Economy Anti-Philip`S Curved? An Implication for Sustainable Development

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Abstract

This study examined the relationship between unemployment and inflation between 1990 and 2018 with a view to testing the existence or otherwise of Philip`s curve theory in Nigeria. The objective of this study was addressed via the application of Engle and Granger and Error Correction Model approach. The following are the major findings that originated from this work; the speed of adjustment for inflation and unemployment to return to the long run equilibrium state when there is a short run disequilibrium due to shock is 16% on annual basis. The lagged value of unemployment rate is positive in both the short run and the long run. In the same vein, the short run estimate shows a positive relationship between unemployment and inflation in Nigeria, though not statistically significant. This implies that the Nigerian economy is anti-Philip's curved in the short run. However, the long run relationship between the variables of interest shows the evidence to support the existence of Philip's Curve theory in Nigeria. Therefore, this study makes these policy recommendations to the policy makers in Nigeria based on its findings: since both inflation and unemployment are macroeconomic problems that could hinder the achievement of sustainable development goal 8- inclusive and sustainable economic growth, full and productive employment and decent work for all, the policy makers in Nigeria should embark on various stabilization policies to address continuous rising in inflation rate and create jobs to address unemployment menace in the country.

Keywords: Inflation: Unemployment: Philip's Curve theory; Nigeria.
JEL Classification: E24, E31, P24.

Introduction

The stability of macroeconomic variables has always been the strategic goals of the policy makers in any economy. Meanwhile, in achieving a sustainable economic growth, the economy must be operating at full employment and single digit inflation rate. Evidence from advance economies have shown that full employment and single digit inflation rate could co-exist,

However, in developing economies of Africa, especially Nigeria inflation and employment are critical issues because despite the fact that country like Nigeria possesses high level of inflation rate, yet rising unemployment has been the order of the date in the country (Olubaduwe, 2009). It has been argued in the literature that a single-digit inflation rate alongside about five percent unemployment rate has the capacity to guarantee macroeconomic stability in an economy holding other factors constant. Sustainable development requires stable macroeconomic variables such as economic growth, inflation rate, employment rate, exchange rate etc. It is instructive to state that perpetual instability of these variables makes developmental planning difficult in the economy.

In Nigeria, inflation and unemployment remain issues of concern among the policy makers and academia in the recent times, because a cursory look into the Nigerian economy shows that there is a continuous non reverse upward movement in the prices of many essential commodities alongside increasing armed of unemployed youth searching for jobs on daily basis without hope of getting one. This implies that continuous rising in prices coexists with unemployment which contradicts the proposition of Philips curve theory which stipulates the existence of a tradeoff between inflation and unemployment in an economy.

Meanwhile, an attempt to empirically investigate the nexus between inflation and unemployment in Nigeria has generated divided opinions in the past studies. For instance, Aminu & Anono (2012), Fagge (2011) submitted that unemployment and inflation have an inverse relationship in the country. However, Salisu, Chindo, Yahaya and Bello (2018) and Anthony, Anthony and Joan (2015) reported a direct relationship between unemployment and inflation in the country. Therefore, the conflicting results identified in the literature could spell doom for policy making in particular and general welfare of the society at large. In order to bridge this gap, there is a need for urgent re-examination of this subject matter in this study. Against this backdrop, this study examines the nexus between unemployment and inflation in Nigeria.

In addition to the introductory aspect of this study, the rest of the work is organized as follows; section two presents review of literature while section three presents methodology, discussion of results and policy recommendation.

Objective of the Study

The objective of this study is to examine the relationship between unemployment and inflation between 1990 and 2018 with a view to testing the existence or otherwise of Philip`s curve theory in Nigeria.

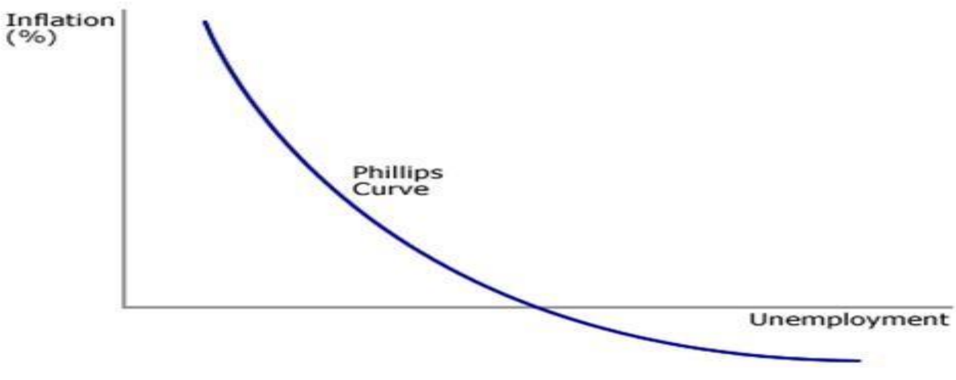
Literature Review

Philip’s Curve

In attempting to provide an answer to one of the basic questions in macroeconomic theory vis-à-vis the cause of inflation, a British economist, A.W. Phillips published his work which utilized data from the U.K. labour market in 1958. Philips aimed to find empirical argument to substantiate the Keynesian proposition which states that the rate of increase in nominal (money) wage rates was a function of the labour market tightness. The level of unemployment was a reflection of the tightness of the labour market in the United Kingdom. As such, Phillips wanted to verify if there exists a statistical evidence that corroborates the hypothesis that the level of unemployment and the rate of change of unemployment could explain the rate of change of money wage rates in the United Kingdom at that time.

However, Phillips’s theory is very straight forward because it operates on the labour market principle such that, if for some reason the demand for labour goes up relative to its supply then it is expected that equilibrium wage rates rise above current wage levels. This would lead to upward pressure on nominal wages as a result firms bidding for additional workers. Hiring additional workers would cause fall in unemployment rate. It is important to state that the determinant of the upward or downward pressure on wage rates is the level of the discrepancy between the quantity of labour demanded and the quantity supplied in the market. Therefore, excess supply of labour would give birth to a rising unemployment.

Figure 1: Hypothetical Phillip’s Curve.



Consequently, Phillips discovered from 1861 to 1957 historical data that the rate at which nominal wage was growing had an inverse correlation with unemployment rate, i.e. low unemployment rates associated with rapidly rising wages whereas high unemployment rates were associated with slowly rising wages. In the same vein, Phillips asserted that the strength of the unemployment vis-à-vis wage-change nexus seemed to be a function of unemployment level. At low unemployment level, decline in unemployment associated with big rise in wage inflation meanwhile, reverse was the case when unemployment was high because, fall in the unemployment rate seemed to orchestrate small increases in wage growth rates.

Empirical Review

Studies focusing on theoretical and empirical relationships between inflation and unemployment have been pronounced in the recent times. This section of the study presents the perceptions of various scholars regarding this subject matter. For instance.

Anthony, Anthony and Joan (2015) examined the nexus between inflation and unemployment in Nigeria with a view to testing the possibility of original Phillips curve proposition holding in the country between 1970 and 2011. The authors adopted a distributed lag model to submit that the significant determinant of unemployment is inflation in one hand and a direct relationship between inflation and unemployment rate existed in Nigeria. This implies that the original submission of the Phillips curve hypothesis could not hold in Nigeria. In another related study, Fagge (2011) utilized a Johansen technique to investigate the link between unemployment and inflation in Nigeria from 1965 to 2009. It was discovered from the study that an inverse relationship existed between unemployment and inflation in the long run in the country.

Meanwhile, Salisu, Chindo, Yahaya and Bello (2018) assessed the applicability of Philips' curve theory with the reference to inflation and unemployment historical data between 1961 and 2015 in Nigeria. The study employed ARDL-bound testing approach for its both long run short run analysis. The findings from the study posited that a long-run relationship between inflation and unemployment existed in Nigeria. Similarly, an insignificant direct relationship existed between inflation and unemployment in the country. This means that no significant impact of inflation was felt on unemployment in the country. Hence, the Philips curve theory is contradicted in Nigeria. In another perspective, Aminu & Anono (2012) used Ordinary Least Square and Granger causality approach to estimate the nexus between inflation and unemployment in Nigeria from 1975 to 2009. It was discovered from the study that an inverse relationship existed between unemployment and inflation in Nigeria. The results of Causality test showed that no feedback effect existed between unemployment and inflation in the country.

However, Ola- David and Oluwatobi (2012) subjected the Nigerian unemployment and output data to empirical investigation in order to find evidence or otherwise of an Okun-type relationship in Nigeria between 1970 and 2009. The study argued that a negative relationship exists between unemployment and output in the long run in Nigeria. In an explicit format, the Okun coefficient was discovered to be 1.75%. This shows that a unit change in unemployment rate brings about 1.75% rise in output in the country. Carlos (2010) utilized Bayesian econometric technique to appraise the relevance or otherwise of the Phillips curve tool in conducting monetary policy in African countries with a case study of Nigeria, wishing to adopt an inflation targeting regime. The researcher opined the inflation rate could be regulated via Phillips curve vis-à-vis the sterilization of the resources from oil exports and a Taylor rule that includes the exchange rate by the Central Bank of Nigeria.

Furthermore, while examining the linkage between inflation and unemployment in a cross country analysis of the United States and the United Kingdom, Tejvan (2011) submitted that there was an existence of some trade-off between unemployment and inflation in both the economies. As inflation was rising, unemployment rate was declining during the period under study in the both countries. In the same vein, Dritsaki and Dritsaki (2012) verified evidence to support Philips curve hypothesis in Greece. The authors discovered the existence of a long run convergence between unemployment and inflation in the country. In another related study in the United States, Alfred and Ian (2011) investigated the long run linkage between inflation and unemployment from 1952 to 2010. The authors asserted that there was a direct link between inflation and unemployment in the country.

In conclusion, testing Philip's curve with historical data of unemployment and inflation has a sparked off debate in the recent times. It is observed that the results of the past studies have not reach a consensus which makes the literature to be inconclusive about this subject matter. Hence, the relevance of this study.

Methodology and Estimation

This study involves the use of secondary data from 1990 to 2018. The study utilized 1990 as base year because inflation and unemployment became issues of concern in Nigeria after the adoption the Structural Adjustment Program. Meanwhile, inflation and unemployment data were sourced from the CBN Bulletin

Empirical Model

In testing for the existence or otherwise of Philip's curve in this study requires econometric technique that involves a bi-variate analysis. This choice of methodology was motivated due to the fact only two variables namely inflation and unemployment are required for the examination of the existence or otherwise of the Philips curve in Nigeria. In the light of the above, this study limited the number of variables of interest to only inflation and unemployment, because addition of any variable could influence the outcome of the study which might contradict the theoretical foundation of this work. Therefore, this study follows the methodology put forward by Philps (1956) and Dritsaki and Dritsaki (2012) in which the model incorporate only inflation and unemployment in such a way that unemployment serves the dependent variable and inflation as independent variable. Thus, the model is specified as follows;

Unemployment = f (Inflation) ……………………….....…………. (1)

UEMR = f (Infl) …..……………………………….…………….... (2)

If equation (2) is linearized, it leads to equation (3)

UEMRt=$\delta_0 + \delta_1$Inflt + Ut --- (3)

If model (3) could be transformed to capture error correction model as in model (4)

$\Delta UEMR_t = \beta_0 + \sum_{i=1}^{p} \beta_1 \ \Delta UEMR_{t-1} + \sum_{i=0}^{p} \beta_2 \Delta Inf_{t-1} + \Omega ECM_{t-1} + \theta_1 UEMR_{t-1} + \theta_2 Infl_{t-1} +$ μi ----------- (4)

Where

UEMR is unemployment rate which measures the percentage of unemployed workers in the total labour fource in the country. Infl is Inflation rate and consumer price index is used to proxy it. μ_i = Stochastic or error term and t = 1990-2018. Meanwhile, the a priori expectations are as follows β2, θ_2 and Ω< 0

Results

Table 1: Descriptive Statistics of Annual Data Series (1990-2018)

Descriptive Statistics	Infl	UEMR
Mean	18.48862	13.31759
Median	12.22000	13.10000
Maximum	72.84000	29.70000
Minimum	5.380000	3.440000
Std. Deviation	17.15360	8.433022
Skewness	0.016217	0.349255
Kurtosis	5.896723	1.999495
Jargue-Bera	0.178726	1.799119
Probability	0.000000	0.406749

Sum	536.1700	386.2100
Sum. Sq. Deviation	8238.891	1991.244
Observation	28	28

Source: Authors` Computation (2019)

It has been submitted that econometric analysis requires the normal distribution of data series as important factor because the asymptotic distribution of data is one the strategic assumptions upon which regression analysis is premised. As such, this study evaluates the descriptive statistics of the variables of interest with the presentation of the results in table one. Consequently, consumer price index which measures inflation rate in Nigeria during the period of 28 years possesses a minimum value of 5.380000% and maximum value of 72.84000% respectively. In the same vain, the variable has a mean value of 18.4% with standard deviation of 17.1%. It shows that CPI data deviate from the both sides of mean by 17.1%. The dispersion of the data is moderate because its mean value is greater than standard deviation. Also, skewedness of the data has value of 0.016217 and Kurtosis of 5.896723. This implies that the data is positively skewed without agreeing with the symmetrical distribution assumption because the value of Kurtosis is greater than 3.

Similarly, unemployment rate data covering the period of 28 years have a minimum and maximum values of 3.440000% and 29.70000% concurrently. It has mean value of 13.3% and standard deviation of 8.4%. Though the data deviate from both sides of mean by 8.4%, the dispersion is wide because the mean value of the variable is greater than its standard deviation. The data is positively skewed with Kurtosis value of 1.9. This implies that the data shows a partial agreement with the symmetrical distribution assumption due the fact the value of Kurtosis is close to 3.

Table 2: Unit Root Test

Variables	ADF Test				
	Level	Probability	1st Diff	Probability	Remark
INF	-2.976263***	0.1390	-2.976263	0.0025	I(1)
UNEM	-2.971853***	0.7070	-2.976263	0.0019	I(1)
Variables	PP Test				
	Level	Probability	1st Diff	Probability	
INF	-2.971853***	0.1910	-2.976263	0.0028	I(1)
UNEM	-2.971853***	0.7660	-2.976263	0.0024	I(1)

Source: Authors` Computation (2019)

*** %5 level

It has been argued in the literature that time series data are always associated with the problem of the stationarity which could cause a spurious or nonsense regression if analysis is based on such data. In order to eliminate the emergence of spurious regression in this study, an attempt was made to investigate stationarity property of the data via the standard Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. It is important to state that the estimated results presented in table 2 justified the fact that the data are not stationary in their native form. This shows that the data employed for this study possess a unit root. In another words, they are I(1) variables.

Table 3: Engle Granger Cointegration Test

Variables	ADF Test				
	Level	Probability	1st Diff	Probability	Remark
Residual	-2.976263***	0.0361	-	-	I(0)

Source: Authors` Computation (2019)

The variables of interest in this study are I(1) variables as indicated in the previous table. This means that these variables could deviate in the short run but have a possibility of a long run convergence. In order to examine the existence or otherwise of this convergence in the long run, this study employed residual based conitegration test advanced by Engle and Granger (1987). This technique is relevant because this study is a bivariate analysis. Consequently, the result of the unit root test on the residual of the regression of the bivariate model is I(0). This implies that the unemployment rate and inflation rate have a long run equilibrium.

Table 4: VAR Lag Order Selection Criteria

Endogenous variables: INF UMR

Exogenous variables: C
Sample: 1990 2018
Included observations: 27

Lag	LogL	LR	FPE	AIC	SC
0	-205.9443	NA	16774.15	15.40328	15.49927
1	-174.3684	56.13486*	2179.200*	13.36062*	13.64859*
2	-171.3544	4.911707	2360.323	13.43366	13.91360

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error

In determining the appropriate optimal lag length, conventional diagnostic tests such as Final prediction error, Schwarz information criterion, Schwarz information criterion, the Akaike Information Criterion were carried out in this study, with the results presented in table 4. The results show that the optimal lag length is 1 as indicted by all information criteria.

Table 5: Parsimonious Short Run and Long Run Regression Estimates

Short Run	Coefficient	T-Value	Prob. Value	Long Run	coefficient	T-Value	Prob. Value
DUEM(-1)	0.169382	0.839756	0.3859	UEMR(-1)	0.874819	9.783384	0.0000
DInfl	0.021746	0.387864	0.7017	Infl	-0.041293	0.958649	0.3469
ECM	-0.162437	2.649585	0.0026	R-Squared	0.840640		
R-Squared	0.953381						

Dependent Variable: UEMR

Source: Authors` Computation (2019)

The estimated results of both the short run and long run relationship between unemployment and inflation in Nigeria are presented in the table above. The coefficient of the error correction model follows the aprori expectation which is negative and significant. The implication of this is that the speed of adjustment for inflation and unemployment to return to the long run equilibrium state when there is a short run disequilibrium due to shock is 16% on annual basis. The lagged value of unemployment rate is positive in both the short run and the long run. This implies that unemployment in the previous year would lead to unemployment in the current year in the short run and the long run in Nigeria. However, the short run estimate shows that there is a positive relationship between unemployment and inflation in Nigeria, though not statistically significant. A unit change in unemployment leads to a rise in inflation by 0.02% in Nigeria in the short run. It is instructive to state that this finding contradicts the Philip's curve theory which states that a trade-off exists between inflation and unemployment in an economy. This shows that the Nigerian economy is anti-Philip's curved in the short run. This submission is in tandem with the conclusions of Salisu, Chindo, Yahaya and Bello (2018) and Anthony, Anthony and Joan (2015) in related studies in Nigeria but contradicts the findings of Tejvan (2011) in a related study in the United States and the United Kingdom.

Furthermore, the long run estimate shows an insignificant inverse relationship between inflation and unemployment in Nigeria. A unit change in unemployment leads to a reduction in inflation by 0.04% in the long run. This means that there is a trade-off exists between unemployment and inflation in Nigeria in the long run. Therefore, evidence to support the Philip's Curve theory exists in the long run in Nigeria. This finding is line with the submission of Aminu and Anono (2012) in a related study in Nigeria.

3.2 Diagnostic and Stability Tests

Table 6: Breusch-Godfrey Serial Correlation LM Test

F-statistic	1.076164	Prob. F(2,21)	0.3590
Obs*R-squared	2.510022	Prob. Chi-Square(2)	0.2851

Source: Authors` Computation (2019)

Table 7: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.486566	Prob. F(3,23)	0.0860
Obs*R-squared	6.612405	Prob. Chi-Square(3)	0.0853
Scaled explained SS	6.200522	Prob. Chi-Square(3)	0.1023

Source: Authors` Computation (2019)

Figure 1: Histogram and Normality Test

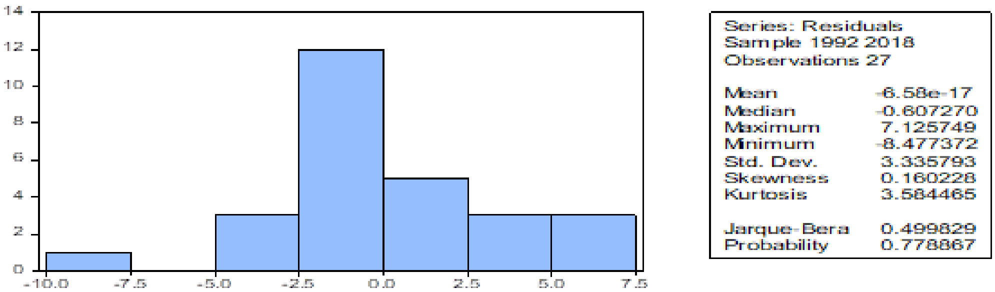
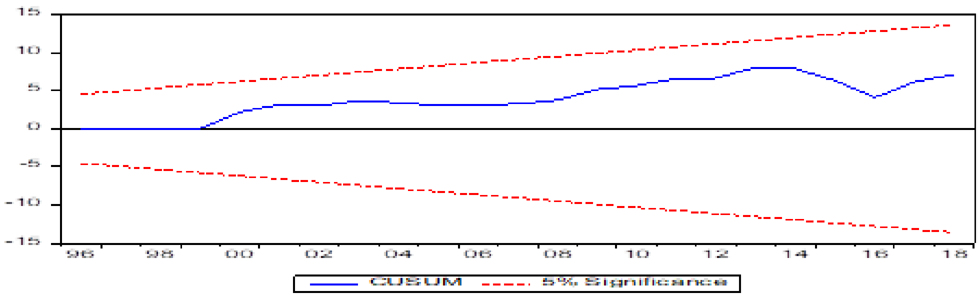


Figure 2: Plot of cumulative sum of recursive residuals



In order to determine how appropriate the adopted parsimonious model in this study is, further effort was made to examine various diagnostic tests and stability tests in the above tables and figures. It could be inferred from the above that the model is free from serial correlation and heteroskedasticity in one hand and the estimated parameters are stable over the period of 1990 to 2018

Conclusion

This study examined the relationship between unemployment and inflation via the application of Engle and Granger and Error Correction Model approach, with a view to testing the existence or otherwise of Philip`s curve theory in Nigeria between 1990 and 2018. The following are the major findings that originated from this work; the speed of adjustment for inflation and unemployment to return to the long run equilibrium state when there is a short run disequilibrium due to shock is 16% on annual basis. The lagged value of unemployment rate is positive in both the short run and the long run. In the same vein, the short run estimate shows a positive relationship between unemployment and inflation in Nigeria, though not statistically significant. This implies that the Nigerian economy is anti-Philip's curved in the short run. However, the long run relationship between the variables of interest shows the evidence to support the existence of Philip's Curve theory in Nigeria. Therefore, this study makes these policy recommendations to the policy makers in Nigeria based on its findings: since both inflation and unemployment are macroeconomic problems that could hinder the achievement of sustainable development goal 8- inclusive and sustainable economic growth, full and productive employment and decent work for all, the policy makers in Nigeria should embark on various stabilization policies to address continuous rising in inflation rate and create jobs to address unemployment menace in the country.

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Ethical Attributes Precipitates Organization Success in Private Universities in Kenya

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Abstract

The global economy, more than any other factor, has created the need by the top management team to effectively exercise leadership in organizations to bring success. This study examined the contribution of ethical factors in organization management success in private universities in Kenya with a specific research question of how does ethical values affect organizational success in private universities in Kenya? The study was underpinned by the strategic leadership theory. It was a correlational study which adopted a positivist philosophy. The study population comprised of all the 17 private universities in Kenya accredited by Commission of University Education and the unit of analysis was the board of directors, vice chancellors, heads of departments which was one hundred and thirty-six (136). The study found that, ethical values contributed a significant percentage in organizational success, R^2= .599. The study found that ethical values significantly predicted organizational performance, $\beta = .774$, $t(122) = 13.452$, $p = .000$. The study concluded/recommended that an organization culture grounded on ethics precipitates the delivery of core mandate of quality training, research, innovation and human capital development in universities.

Keywords: Ethics, higher education, global economy, leadership, attributes, precipitates, success, management.

Introduction

About one billion inhabitants is hosted in the Sub-Saharan African region with over two hundred public universities and a fast-growing number of private universities (Friescenhahn, 2014). A big percentage of scholars agree that higher education at the university level is most significant contributing factor for the region’s fast development, transformation and future sustainability (Mouton, 2011; Sifuna & Sawamura, 2010). The management of global resources adequately need a population with capacity to sustain them due to pressure from the ever-changing environment. This requires an inherent ethical value system to ensure survival of the next generation. The knowledge economy discourse characterizes the new relationship between higher education, the state and society, and the economy in this age of globalization. Institutions of higher education core functions consist of teaching, research and community extension service (UNESCO, 2010). The output by Higher Education institutions becomes increasingly important for international competition of a nation through generation, application, and dissemination of knowledge as heavily grounded in a strong ethical value system.

Evidence presented from past studies suggest that being ethical is a critical contributing factor in organizational success in Kenya in terms of credibility, dependability, and possessing best practices paradigm in the global higher education landscape. Webometric Ranking of Universities (2016) did not rate Kenyan universities as envisioned in the strategic plan, as a consequence there is need to address the gaps because the strategic leadership theory which underpins this study holds that organizations are images of the top leadership in those units. Gaps have been identified in policy adherence and enforcement areas, university boards have not lived to the expectations hence lack of best practices on human resource management and financial resource mobilization for a sustainable growth and survival and shortage of research in leadership role in universities. The question is whether this failure is due to lack of ethical values and practices? The role of higher education as a norm should focus on knowledge creation and transmission with an ethical orientation to the students to enhance economic and political transformation in Kenya. This study therefore examined organization management success as explained by ethical considerations with reference to private universities in Kenya.

Literature Review

Theoretical Framework

The theoretical orientation for this study is anchored on the strategic leadership theory which asserts that companies are reflections of their top managers, and that the specific knowledge, experience, values and preferences of top managers are reflected not only in their decisions, but in their assessments of decision environments (Ireland, Hitt & Hoskisson, 2013). Morrill (2010) submits that theory gives rise to knowledge about leadership and to methods of decision making for leadership. Leadership is understood as the enactment of shared purposes which can frame the construction of an applied and integrative discipline for the exercise of strategic leadership.

The study is conceptualized on the basis of the Strategic Leadership theory with emphasizes on ethical values as a construct that underscores the interplay of the three variables that is ethical leadership, code of ethics and ethical rewarding.

Ethics

Ethics is referred to as employees' perceptions of their firm's authentic/virtuous practices (Jin & Drozdenko, 2010). Employees' perceptions of corporate ethics tend to serve as ethical standards when they make decisions on ethics-related issues (Kish-Gephart, Harrison & Treviño, 2010). Employee perceptions of corporate ethics are meaningful predictors of work outcomes, such as job satisfaction (Tsai & Huang, 2008) and organizational commitment. Consensus regarding the dimensions or components comprising corporate ethics is lacking.

Ireland *et al.,* (2013) submits that good governance practices are embedded and emphasized on organizational ethical practices. Globally, an organization is believed to have integrity in how it conducts its business based on the credibility, reliability, inimitability and best practices which are sustainable. This study examined the strategies employed by the universities to improve ethical values, regulations and policies regarding ethical codes for the workers, financial systems, procurement and recruitment, selection and separation.

Detert, Treviño and Sweitzer (2008), has classified ethical climates into 10 dimensions: ethical environment, employee focused, community focused, obedience to authority, code implementation, self-interest, efficiency, rules and procedure, personal ethics, and law and professional codes.

There are three dimensions of corporate ethics based on the core of firms' ethical behaviors or characteristics: external, internal and employee ethics. This conceptualization is consistent with the ethics qualities model proposed by Kaptein and Van Dalen (2000), that covers three domains of ethical practices: a firm's relationships with external stakeholders, its internal ethical functioning, and the morality and ethical behaviors of employees. These three dimensions are consistent with three distinct approaches to corporate ethics research that focus on the consequence, context and conduct aspects of ethics. The dimension's deal with inconsistencies among different typologies of ethical environment as well as to provide an overarching classification of corporate ethics. Ethical practices increase a firm's effectiveness to implement its strategies. This encourages and enables people at all organizational levels to act ethically when doing what is necessary to implement the firm's strategies. As a consequence, private universities must have strong ethical practices to be aligned to their strategic plans. This ensures that the organizational processes are handled with integrity, fairness, with a focus to providing good service delivery to the stakeholders.

Chun, Shin, Choi and Kim (2013), suggests that the three dimensions of corporate ethics, internal ethics is most strongly related to employees' collective organizational commitment. When employees perceive that their organization adheres to legal and ethical standards, they become more committed to their organization. Endorsement of ethical principles reduces ambiguity about the roles and behaviors of employees, this offers employees a clear sense of what is expected and how they should behave within the organization. Furthermore, internal ethics fosters a justice climate within the firm, thereby causing employees to feel greater commitment to their workplace. However, the present findings should not be interpreted as evidence of inconsequential roles of the other two dimensions of corporate ethics that is, external and employee ethics (Gong, Chang & Cheung, 2010). Although internal ethics is the strongest predictor of employees' commitment, external and employee ethics also have positive and significant relationships with collective commitment.

Jacinto and Carvalho (2009), in a study found out that employees heightened organizational commitment was positively related to both types of their organizational citizen behavior. Although this finding reflects those of previous studies of organizational citizen behavior. Note that the present study empirically demonstrates the commitment - organizational citizen behavior relationship at the firm level, which has been lacking in organizational citizen behavior literature dominated by the individual and group-level studies.

In practical terms, being ethical can be beneficial to firms, making it a worthwhile endeavor (Scott, 2008). Although it can involve multistep processes and its consequences might not be immediately noticed, firms with a high degree of internal ethics can achieve better financial performance through their employees' collective commitment and organizational citizenship behavior. It is apparent that employees' strong commitment to their organization and organizational citizenship behavior to bring a host of benefits to the workplace. Therefore, top managers should not overlook the importance of ethical management and be aware that being ethical can indeed pay off. Based on the finding that internal ethics is the strongest predictor of collective commitment, firms may best benefit from directing their ethical efforts toward promoting internal ethics.

Managers can attempt to facilitate their internal ethical functioning through diverse routes, such as establishing a code of ethics and guidelines in accordance with the legal and professional standards (Thomas, Schermerhorn, & Dienhart, 2004). Furthermore, human resource practices (such as ethics training, incentivizing ethical behaviors) can be implemented to bolster internal ethics and enforce ethical operation. Schwartz, Dunfee, and Kline (2005), argue that simply meeting legal obligations might be insufficient because it does not allow firms to adapt to rapidly changing legal environments and to intensifying public scrutiny. These authors state that firms should reflect comprehensive ethical responsibility in their guidelines for decision making, particularly at the top echelon. To achieve this objective, a firm's board of directors can perform a critical role by establishing a code of ethics, thus shaping the ethical tone by demonstrating examples and actions.

Organizational Success

According to Richard *et al.*, (2013), the actual outcomes and results of an organization as measured against its intended goals and objectives constitutes organizational performance. Organizational performance comprises three specific areas of the firm outcomes: financial performance such as profits, return on assets, return on investment; product market performance such as sales, market share, and shareholder return such as total shareholder return, economic value added. Armstrong (2017), defines performance as the record of outcomes produced on a specified job function or activity during a specified period. Therefore, performance is measured in terms of output and outcome, profit, internal processes and procedures, organizational structures, employee attitudes, and organizational responsiveness to the environment among others (William 2002). In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology (Kaplan & Norton, 2001) where performance is tracked and measured in multiple dimensions such as: financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach) and employee stewardship. Balanced scorecard also identifies the measures used to monitor, review and assess performance (Armstrong, 2017).

The success of any organization is contingent on the capability of its top managers, leaders and a sustainable organizational culture created by those leaders. The belief and value systems created by the leaders always influence its performance (Soebbing et al. 2015). According to Ssekakubo *et al*., (2015), leadership competencies have a direct positive effect and always improves employee performance. This is further affirmed by researchers who have focused on the relationship between the competencies of leaders and how their organizations perform in the world economies. Pradhan and Pradhan (2015) agrees that, leadership is a contemporary slogan because individuals in charge of organizations would rather prefer being called as leaders rather than as managers.

According to McNair *et al.,* (2011) says on one hand, that the art of motivating teams or groups of a workforce to appropriately to achieve a common goal is leadership. The researchers further submit that, the abilities to persuade other people, on behalf of the organization, to perform tasks necessary to achieve the organization's objectives and to communicate its vision to others demonstrate leadership competencies. There is mechanism of creating followers through skills, abilities and knowledge. Overstreet et al. (2014) on the other hand, consider competent leaders to have innate qualities whereas others say that competent leaders are made. Subsequently, both schools of thought agree that; some leaders have inborn qualities, but these may not be enough to ensure organizational success. Whereas some leaders require skills development through training and more experience before those leaders can be considered competent.

Success includes the definite outcomes of an organization as measured against its intended goals and objectives. According to Richard, Devinney, Yip and Johnson (2009), organizational performance incorporates three areas of firm outcomes: financial performance (profits, return on assets and return on investment), product market performance (sales, market share) and shareholder return (total shareholder return, economic value added). Currently, many organizations strive to manage organizational performance using the balanced scorecard where performance is monitored and measured in multiple dimensions such as: financial performance (shareholder return), customer service, corporate social responsibility (corporate citizenship, community outreach) and employee stewardship (Kaplan & Norton, 2001). The measurement of performance contracting outlines the expectations (the work, the results to be attained and the attributes) and competencies required to achieve results. Armstrong (2017), affirms that performance contracting identifies the measures used to monitor, review and assess performance indicators.

According to Pradhan and Pradhan (2015), competent leadership is built upon various variables and characteristics, such as values, knowledge, intellectual drive, ethics, charisma, creativity, self-confidence and courage over a period in the organization. For a leader to demonstrate competence, there must be a purpose and a balanced personality as well as skills that can be applied to put purpose in question. Asree *et al.*, (2010), further contends that vision, integrity, openness, dedication, and creativity among leaders is recipe for all employees to succeed and this ensures that organizations improve its performance.

The capabilities and skills leaders should employ must contain mentoring and coaching, leading and motivating, problem solving and decision making, communicating and listening, and influencing and negotiating which form succession plans (Tomal & Jones, 2015). A relationship between leadership competencies and cognitive competencies exists. Globalization is another compelling factor where performance of an organization is contingent upon the effectiveness and flexibility of its leaders (Soebbing et al. 2015). High performing leaders tend to act as agents of change by empowering employees and often ensure that organizations adapt and succeed while recognizing the satisfaction of customers.

The iceberg model according to Bello (2012), that hypothesizes that leadership competencies are categorized into two; dominant competence and hidden competence. The first category that is the dominant competence is concrete where leaders employ acquired skills to execute their duties. This category of competence ensures that employees are doing their best to enable the organization to meet its long and short-term objectives. The second category is hidden competence which involves the community skills and personal knowledge that serve as inherent advantages for organizational leaders.

According to Kaplan and Norton (2001), the Balanced Scorecard allows organizations to build a management system that manages strategy of the organization. Strategy means communicating in a way that everyone can understand the plan for success. This therefore means that focused navigation in the organization to align strategy, and organization means to mobilize all employees to act in different ways that will link together across the business. The Balanced Scorecard provides a framework to look at strategy from four different perspectives; Financial, Customer, Internal Business Processes, and Learning and Growth. It gives managers the accurate information to make important decisions that affect everyone in the company.

Methodology

The study adapted positivism as the research philosophy. Positivism as a research paradigm is premised on measurable observations that lead themselves to statistical analysis. The use of appropriate research philosophy and philosophies help researchers to eliminate unrelated factors from the research (Cooper & Schindler, 2014). The study adopted a descriptive correlational research design which determines if the two variables are correlated. This therefore implies whether an increase or decrease in one variable corresponds to an increase or decrease in the other variable.

The target population for this study included all the 17-chartered private as per MoEST (2016) with unit of analysis in the board members, vice chancellors, academic deans and heads of departments (finance, quality assurance, research, security, human resource and co-curricular activities) as the unit of analysis. Purposive sampling was used to sample board members and the study adopted census by considering all the elements of the population given they were less than 200 (Israel, 2009). Both primary and secondary data were used where primary data was collected by use of structured questionnaires and observations and secondary data was drawn from literature review of studies done in the area. The main tool for data collection was questionnaires, then analyzed by use of descriptive statistics (percentages, means, and standard deviation) and inferential statistics (correlations and linear regression) which were used to determine whether there were significant association/linear relationships between the predictors and the outcome variable using SPSS. Prior to conducting inferential analysis assumptions for linear regression such as checking for normality of the data, homoscedasticity, multicollinearity and linearity were done.

Results

Effect of Ethical Values on Organizational Success

The study examined the effect of ethical values as a derterminant of organizational performance in private universities in Kenya. Data was analyzed at two levels where the first level entailed determining ethical values. The second part involved analyzing results on the effect of ethical values on organizational performance.

Factor Analysis Results on Ethical Values

Factor analysis was conducted in the study to describe variability among items of ethical values. Ethical values construct was measured using sixteen (16) items thereby the construct was factor analyzed to come up with an appropriate measure. The study found that ethical values had KMO value of 0.857 and Bartlett's test, $x2(120, N = 124) = 1146.143, p = .000$. This was meritorious; that means the adequacy of the sample was acceptable. Therefore, sampling was adequate for ethical values as given by the Kaiser-Meyer-Olkin Measure of Sampling Adequacy value.

The study sought to determine the factor loadings for ethical values. The findings obtained indicated that "The university has ethical policy for reviewing salaries of the employees" had the highest factor loading in the first component with 0.871 while "The university has a selection and recruitment policy" had the highest factor loading of 0.610 in the second component. university has ethical policy for reviewing salaries of the employees, 26.7% neither agreed nor disagreed, 10.8% strongly agreed and 22.5% disagreed while 9.2% strongly disagreed. Some respondents (33.3%) agreed that hard working employees are financially rewarded for their services, 28.3% neither agreed nor disagreed, 7.5% strongly agreed and 15.8% disagreed while 15% strongly disagreed.

Further, the findings indicated that some respondents (30.6%) agreed that the university has a policy for giving bonuses to outstanding employees, 23.1% neither agreed nor disagreed, 11.6% strongly agreed and 18.2% disagreed while 16.5% strongly disagreed. Some respondents (45.1%) agreed that new employees are oriented in to the university's values, and this greatly influences their performance and productivity, 18.9% neither agreed nor disagreed, 21.3% strongly agreed and 12.3% disagreed while 2.5% strongly disagreed. Some respondents (27.5%) agreed that there is a clear measurement of the economic and people impact of ethical behaviors, 23.3% neither agreed nor disagreed, 11.7% strongly agreed and 25.8% disagreed while 11.7% strongly disagreed. Finally, some respondents (31.4%) agreed that the university has saved on finances and time due to its ethical standards of procurement, 32.2% neither agreed nor disagreed, 14.9% strongly agreed and 13.2% disagreed while 8.3% strongly disagreed.

Mean and Standard Deviation for Ethical Values

The study also sought to analyze the views of respondents on Ethical Values using a table of means and standard deviation. A Likert scale data was collected rating the views in a scale. The mean results are therefore given on a scale interval where a mean value of 1 is an indication of strongly disagree; 2 is disagree; 3 is neutral, 4 is agree and a mean value of 5 is an indication of strongly agree. According to the findings, the respondents agreed to the following statements: The university has policies and regulations regarding the standard acceptable behavior (M = 4.19, SD = 0.819); the university has policies and regulations regarding the standard acceptable behavior (M = 4.06, SD = 0.891); The University has systems to ensure high performance and ethical behaviors (M = 3.92, SD = 0.936); ethics training motivates employees in the work place (M = 3.63, SD = 0.972); new employees are oriented in to the university's values, and this greatly influences their performance and productivity (M = 3.70, SD = 1.018) employees role in the firm determines his/her training needs (M = 3.76, SD = 0.882); the university has a selection and recruitment policy (M = 4.13, SD = 0.944) and the university considers qualifications and experience when hiring employees (M = 4.14, SD = 0.912).

The findings also indicated (see table 1) that the respondents neither agreed nor disagreed to the following statements: the university provides ethical training to newly hired staff to prepare them for their new positions (M = 3.41, SD = 1.238); the university offers short training on ethics in form of seminars (M = 3.29, SD = 1.221); the university offers short training on ethics in form of seminars (M = 3.29, SD = 1.221); staff members are periodically given opportunity in form of workshops to discuss the ethical issues they are experiencing (M = 3.11, SD = 1.268); the university has ethical policy for reviewing salaries of the employees (M = 3.12, SD = 1.154); hard working employees are financially rewarded for their services (M = 3.02, SD = 1.184); the university has a policy for giving bonuses to outstanding employees (M = 3.02, SD = 1.274); there is a clear measurement of the economic and people impact of ethical behaviors (M = 3.02, SD = 1.216); the university has saved on finances and time due to its ethical standards of procurement (M = 3.31, SD = 1.133).

Table 1: Means and Standard Deviations for Ethical Values

	N	Mean	Std. Deviation
The university has systems to ensure high performance and ethical behaviors	121	3.9174	.93619
The university has policies and regulations regarding the standard acceptable behavior	122	4.1967	.81959
The HRM Department has a written policy on advertising for employment vacancies	122	4.0574	.89350
The university has a selection and recruitment policy	122	4.1311	.94432
The university considers qualifications and experience when hiring employees	122	4.1393	.91196
The university provides ethical training to newly hired staff to prepare them for their new positions	122	3.4098	1.23819
The university offers short training on ethics in form of seminars	121	3.2893	1.22092
Ethics training motivates employees in the work place	122	3.6311	.97235
Employees role in the firm determines his/her training needs	122	3.7623	.88190
Staff members are periodically given opportunity in form of workshops to discuss the ethical issues they are experiencing	122	3.1148	1.26750
The university has ethical policy for reviewing salaries of the employees	120	3.1167	1.15361
Hard working employees are financially rewarded for their services	120	3.0250	1.18437
The university has a policy for giving bonuses to outstanding employees	121	3.0248	1.27451
New employees are oriented in to the university's values, and this greatly influences their performance and productivity	122	3.7049	1.01793
There is a clear measurement of the economic and people impact of ethical behaviors	120	3.0167	1.21602
The university has saved on finances and time due to its ethical standards of procurement	121	3.3140	1.13309

The study sought to determine the relationship between ethical values index and organizational performance using correlation analysis and found that the two variables were strongly correlated r (123) = .774, p = .000. The results are as shown in Table 2.

Table 2: Correlation Analysis on Ethical Values Index

		Organizational Performance
Ethical Values	Pearson Correlation	.774**
	Sig. (2-tailed)	.000
	N	123

**. Correlation is significant at the 0.01 level (2-tailed).

Table 3: Model Summary for Ethical Values

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774[a]	.599	.596	.46911

Predictors: (Constant), Ethical Values

The findings indicated that the significance value in testing the reliability of the model for the relationship between ethical values and organizational performance was F (1, 121) = 180.965, p = 0.00. Therefore, the model is statistically significant in predicting the relationship between ethical values and organizational performance. Results are as presented in Table 4.

Table 4: ANOVA for Ethical Values

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.823	1	39.823	180.965	.000[b]
	Residual	26.627	121	.220		
	Total	66.450	122			

Dependent Variable: Organizational Performance
Predictors: (Constant), Ethical Values

The study found that ethical values significantly predicted organizational performance, β = .774, t (122) = 13.452, p = .000. This finding implied rejection of the null hypothesis since the p value was less than <.05 set by the study. The study therefore concluded that ethical values significantly influence organizational performance in private universities in Kenya. The results are presented in Table 5.

Table 5: Regression Coefficients for Ethical Values

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.038	.212		4.891	.000
	Ethical Values	.786	.058	.774	13.452	.000

a. Dependent Variable: Organizational Performance

The findings obtained in the study implied that for every one-unit change in ethical values, organizational performance increases by 0.774 hence implying a positive impact of ethical values on organizational performance.

Conclusion

The study determined that staff members were not periodically given opportunity in form of workshops to discuss the ethical issues they are experiencing, the universities did not have enough ethical policies for reviewing salaries of the employees, hardworking employees were not financially rewarded for their services and the universities had fewer policies for giving bonuses to outstanding employees. That employees responded positively to corporate ethics in terms of their organizational attitudes and workplace behaviors, ultimately enhancing institutions financial performance. In addition, the study determined that it was apparent that employees' strong commitment to their organization and organizational citizenship behavior to bring a host of benefits to the workplace.

The study therefore recommends that private universities in Kenya can increase their admission quarters when they embrace a strong ethical culture such that industry can recon with the standards. This can reduce the negative perception of corruption as reported in the global corruption index. This can attract partnerships with industry and academia to improve economic development in the country and can be replicated globally.

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External Debt and Economic Growth in Nigeria: An Implication for Debt Overhang Theory

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Abstract

In the recent times, several agitations have surrounded the huge external debts incurred by the Mohammed Buhari led government in the past four years, and the current approval of $22.7 billion external debt by the Nigerian National Assembly has sparked off debates among scholars and policymakers. Against this backdrop this study critically examined the contribution of external debts to economic growth in Nigeria from 1981 to 2018 via the application of Autoregressive Distributed Lag model and Bounds Testing techniques. The significant contributions of this study to the field of research are as follows; past economic growth did not contribute to the present economic growth in Nigeria. In the same vein, external debt caused a significant setback to economic growth in Nigeria during the periods under investigation. Meanwhile, debt servicing and economic growth had a direct relationship in the country. Exchange rate contributed a negative impact on economic growth. Whereas, the foreign reserves had a positive and significant impact on economic growth in Nigeria. Consequently, the emergence of these crucial findings make this study to recommend the following for the policy makers in Nigeria in particular, and other highly indebted countries in Africa that past external debts in Nigeria are inhibitors to economic growth in the country. Therefore, policymakers in Nigeria should explore other means of financing country`s deficit budget rather than external debt.

Keywords: External Debt; Debt Service Payment; Exchange Rate; ARDL: Nigeria.
JEL Classification: F3, 31

Introduction

In the recent times, debt overhang theory has been a burning issue in a highly indebted country like Nigeria. Debt overhang theory is a phenomenon in a country whereby debt servicing consumes substantial resources in such way that economic growth is stifled in that country. Meanwhile, Nigeria is a country characterized with a low economic growth, low per capita income and inadequate domestic savings, which make it very difficult for the country to meet its developmental goals. In the past few decades, the inability of Nigeria to avoid external debt lies in the over reliance of the country on oil and gas, which its price has been volatile in the global market. At the same time, Nigerian exports are geared towards primary products which lack value addition, as such it could not generate enough foreign exchange earnings to finance imports of capital goods resulting into trade deficit in the country (Siddique, Selvanathan and Selvanathan, 2015).

Historically, it is interesting to note that heavy debt burden in Nigeria could be traced to around late 1970s and early 1980s due to a very sharp dwindling in oil revenues. This burden became aggravated when the Babaginda's regime adopted the IMF's Structural Adjustment Programme (S.A.P) in 1986, which facilitated disbursement of loans by this institution to the Nigerian government. The periods of 1986 to 1993 were connected with huge external debts which could not be traced to any meaningful developmental projects in the country. Explicitly, Nigeria incurred external debt of approximately $1 billion in 1971, which rose to $33.5 billion in 1991. The Nigeria's external debt stock valued at $29 billion in 1999 when democracy resurfaced. External debt stood at $28.7 billion in 2015 when the Mohammed Buhari led administration came on board. However, from 2016 to 2018, external debt has risen from $30.6 billion to $ 46.2 billion. This implies that external debt increased by 37.8% between 2015 and 2018 in Nigeria (WDI, 2019).

Consequently, there is nothing bad for a country to embark on external debt if such debt will stimulate economic growth and development. But in the case of Nigeria, huge external debt has been a burden in the country in the past few decades due to the lack of optimal utilization, debt management and servicing problem (Adepuju, Salau and Obayelu, 2007; Sanusi, 2003). It is expected that economic growth should accompany the past inflows of external debt in Nigeria. An attempt to empirically establish the above statement has orchestrated divided opinions among the scholars in the recent times. For instance, Udeh, Ugwu and Onwuka (2016) argued that external debt stimulated economic growth in Nigeria only in the short run. While reverse was the case in the long run. Meanwhile, other authors like Ogbonna and Appah (2016), Sulaiman and Azeez (2012) asserted that external debt led to economic growth in the long run. However, Bamidele and Joseph (2013), Ogege and Ekpudu (2010) submitted that external debt has been an inhibitor to the Nigerian economic growth.

It could be pinpointed from the above that literature is highly controversial regarding the nexus between external debt and economic growth in Nigeria. Against this backdrop, this study tested the existence or otherwise of the debt overhang theory in Nigeria. Also, the uniqueness of this lies in utilizing latest econometric technique in which the majority of recent studies have undermined.

This work is structured as follows; foundation of this study is laid in the introductory aspect. Meanwhile, section two presents the review of the relevant literature. In the section three, methodology, discussion of results, conclusion and policy implication of this study are consequently presented.

Objective of the Study

The objective of the study is to examine the nexus between external debt and economic growth in Nigeria from 1981 to 2018

Literature Review

The Debt Overhang Theory

The high level of indebtedness of majority of countries in Africa, especially Nigeria in the recent times makes debt overhang theory a subject of interest. External debt and economic growth has been a complex phenomenon in developing economies. Debt overhang theory submits that what makes the pace of investment to decline in an economy is debt overhang. The bone of contention of this theory is that any country that lacks repayment ability of its debt, there is high level of probability in the future that the output of such country will not be able to provide the expected debt servicing. This could serve as a discouraging factor for both local and foreign investors because some of the returns from investing in the domestic economy could be redistributed to the existing foreign creditors through excessive taxes in an attempt by the indebted country to service the debt and repay the principal.

Meanwhile, the wide scope of debt overhang is manifested in such a way that its effects are felt in investment in physical capital and any activity that incurring of costs upfront with aim of future increment in output. It is worth of note that these activities involve the investment in human capital and advancement of technology which are the back bone of economic growth over time. However, the approach of the indebted country in raising resources for servicing of external debt with complementarity of investment of private and public domains largely depends on the way a debt overhang repels private investment. For example, inflation tax or capital levy by the government could discourage private investment. For instance, if a government embarks on inflation tax or in a capital levy, this might serve as a discouraging factor to private investment. Consequently, the submission of a debt overhang theory is that additional investment brings about very little returns in indebted country as a result of the need for the country to service its debt. Therefore, servicing a large volume of foreign debt could hinder economic prosperity of a country through the crowding out effect, because high real interest rate could make the borrowed country to worse off and eventually shut-off from foreign credit market. The decline in the available resources of the country will incapacitate the country to finance investment and macroeconomic conditions, this eventually leads to a decrease in investments and fall in output.

Empirical Review

Over time, nexus between external debt and other macroeconomic variables has been well pronounced in the literature. In a study carried out by Udeh, Ugwu and Onwuka (2016), Ordinary Least Square was used to estimate the relationship between external debt and economic growth in Nigeria from 1980 to 2013. The authors argued that the relationship between external debt and economic growth was direct in the short run, but the reverse was the case in the long run. At the same time, external debt service payment showed an inverse relationship with economic growth in Nigeria. While conducting a study in Debt Trap Countries (DTC) and Non Debt Trap Countries (NDTC) of Asian pacific development countries, Alam and Taib (2013) examined a linkage between external debts, budget deficit, current account deficit and exchange rate depreciation in the above mentioned countries. It was discovered from the study that a positive nexus existed among external debt, budget deficit, current account deficit and exchange rate depreciation. However, there were variations in the level of the significance of the nexus in DTC and NDTC. In another related study focusing on Nigeria, Ogege and Ekpudu (2010) employed Ordinary Least Square to assess how debt burden and economic growth were related in Nigeria. The authors posited that debt stock hindered the Nigerian economic growth.

Meanwhile, in Tanzania between 1990 and 2013, Kasidi and Said (2013) estimated the relationship between external debt and economic growth in that country. It was inferred from the work that the Tanzanian economic growth felt a significant positive impact of the external debt whereas the reverse was the case of debt service payment. In the same vein, how domestic and external debt impacted Pakistan`s economic growth was investigated between 1980 and 2010 was investigated by Atique and Malik (2012) with the application of both Ordinary Least Square and Co-integration techniques. The authors asserted that both domestic and external debts discouraged economic growth in the country. In another study, Ijeoma (2013) adopted a linear regression model to examine how external debt stock, external debt service payment and some selected macroeconomic variables were related in Nigeria. It was submitted that debt servicing and gross fixed capital formation had a significant relationship. Economic growth of the country was affected by exchange rate fluctuations, external debt shock, and external debt servicing.

In addition, Sulaiman and Azeez (2012) utilized Co-integration test and Error Correction model to investigate the linkage between external debt and economic growth in Nigeria. The authors enunciated that a long-run equilibrium relationship was found among the variables of interest. Also, the Nigerian economy has immensely benefited from external debt. Similarly, Malik, Hayat, and Hayat (2010) employed regression analysis to evaluate the linkage between external debt and economic growth in Pakistan from 1972 to 2005. The study concluded that external debt had a significant negative impact on economic growth in the country. Ogunmuyiwa (2011) explored Vector Error Correction Method (VECM) to research the contribution of external debt on economic growth in Nigeria between 1970 and 2007. No existence of causal relationship between external debt and economic growth in Nigeria was discovered. In another study, Adesola (2009) used multiple regression analysis to estimate the nexus between external debt service payment and economic growth in Nigeria between 1981 and 2004. It was discovered the gross fixed capital formation and economic growth in Nigeria were stimulated by debt payment to Paris club creditors and Promissory Notes holders. Whereas, debt payment to London club creditors and other creditors proved otherwise on gross fixed capital formation and economic growth in Nigeria.

In conclusion, it could be inferred from the reviewed studies that nexus between external debt and economic growth are ongoing in developing countries, especially Nigeria, and the literature has been highly controversial in the recent times. Hence, the relevance of this work.

Methodology and Estimation

Secondary data from 1981 to 2018 were utilized in this study. External debt, debt service payment, GDP and foreign reserve were extracted from World Development Indicators. Meanwhile, exchange rate data were collected from the Central Bank of Nigeria statistical bulletin.

Empirical Model

In accounting for the nexus between external debt and economic growth in Nigeria, the model for the analysis of this study is specified as follows;

Economic Growth = F (External Debt)…………..……………….. (I)

Explicitly, equation (1) could be restated as;

EGt = F (ExtDt, DSPt, FRt, Exch) ……………………………….. (II)

Linearizing equation (II) generates equation (III) as follows;

$EGt = \beta_1 + \beta_2 ExDt + \beta_3 DSPt + \beta_4 FRt + \beta_5 Excht + \mu_i$ ………….. (III)

ARDL Model Specification

Employment of ARDL and Bounds test model in this study is as a result of unit root test performed on variables of interest, which shows that the variables are I(1) and I(0) nature. Meanwhile, Pesaran, Shin and Smith (2001); Pesaran and Pesaran (1997) argued that when the variables of interest are the combination of stationarity and non-stationarity data, ARDL model is the best technique of analysis. Therefore, ARDL model is specified as follows;

$$\Delta EG_t = \beta_1 + \sum_{i=1}^{p} \beta_2 \ \Delta EG_{t-1} + \sum_{i=0}^{p} \beta_3 \ \Delta ExD_{t-1} + \sum_{i=0}^{p} \beta_4 \Delta \ DSP_{t-1} + \sum_{i=0}^{p} \beta_5 \Delta \ FR_{t-1} + \sum_{i=0}^{p} \beta_6 \Delta \ Exch_{t-1} + +\mu i \text{ -------------- (IV)}$$

Where;

EG = this represents economic growth and Real Gross Domestic Product is used to proxy it. ExD is used to capture external debt incurred by the country. DSP is debt service payment. FR represents foreign reserves while Exch is official exchange rate in the country. μ = Stochastic or error term and t = 1981-2018.

The a priori expectations are as follows β_2 β_3 and $\beta_5 > 0$, β_4 and $\beta_6 < 0$.

Results

Table 1: Descriptive Statistics of Annual Data Series (1981-2018)

Descriptive Statistics	EG	ExtD	DSP	FR	Exch
Mean	6.0E+148	1212.816	285022.6	2881686	76.59172
Median	2.31E+13	625.1685	46353.37	92739.20	57.37220
Maximum	2.2E+150	4890.270	4545934	68422117	253.4923
Minimum	1.71E+12	2.331200	1092.300	5479.700	0.610025
Std. Deviation	3.6E+149	1390.059	799339.7	11434121	72.03856
Skewness	0.747049	0.281563	0.509493	0.449177	0.423730
Kurtosis	3.028574	3.412852	2.927893	3.728601	1.985552
Jargue-Bera	1642.330	10.11009	778.9783	1416.160	2.620939
Probability	0.000000	0.006377	0.000000	0.000000	0.269693
Sum	2.2E+150	43661.39	10260813	1.04E+08	2757.302
Sum. Sq. Deviation	4.6E+300	67629204	2.24E+13	4.58E+15	181634.4
Observation	37	37	37	37	37

Source: Authors` Computation (2020)

The above table shows various descriptive statistics of the variables of interest in this study. For instance, economic growth and exchange rate data have mean values greater than their standard deviations. This implies that economic growth data did not widely deviate from the both sides of mean and moderately dispersed during the periods under investigation. Similarly, considering coefficients of skewness and Kurtosis of economic growth which are 0.747049 and 3.028574 respectively indicate that economic growth data are are positively skewed and agreed with the assumption of symmetrical distribution. But, exchange rate data have a Kurtosis value far from 3, this implies that the data might not agree with a symmetrical distribution assumption. Meanwhile, external debt, debt service payment and foreign reserve have mean values less than their standard deviations. This means that the data were widely deviated from both sides of their mean and dispersed under the periods under study. The data is positively skewed and agreed with the assumption of symmetrical distribution because their values of Kurtosis are around 3.

However, from the above descriptive statistics, it could be inferred that the majority of the data were distributed fairly and as such, the data could be used for econometric analysis.

Table 2: Unit Root Test

Variables	ADF Test				
	Level	Probability	1st Diff	Probability	Remark
EG	-3.632900***	0.0000			I(0)
ExtD	-3.632900	0.3210	-3.632900	0.0193	I(1)
DSP	-3.699871	0.9986	-3.711457	0.0016	I(1)
Exch	-3.626784	0.9999	-3.632900	0.0130	I(1)
FR	-3.653730	0.9999	-3.689194	0.0021	I(1)
Variables	PP Test				
	Level	Probability	1st Diff	Probability	
EC	-3.632900***	0.0000			I(0)
ExtD	-3.626784	0.6668	-3.632900	0.0259	I(1)
DSP	-3.699871	0.9986	-3.711457	0.0006	I(1)
Exch	-3.626784	0.9999	-3.632900	0.0130	I(1)
FR	-3.626784	0.9975	-3.632900	0.0001	I(1)

Source: Authors` Computation (2020)

*** 1% level

The econometric analysis of time series data requires a test of stationarity property of such data in order to avoid a spurious empirical finding. Against this backdrop, the standard Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests were utilized in investigating behavior of the data employed in this study. Consequently, the outcomes of the tests as shown in table two (2) indicate that only economic growth data are stationary at level while other variables are stationary after first differencing. This implies that the study utilized a combination of I (1) and I (0) data for its empirical analysis, this consequently motivated estimation of Bounds test and ARDL model Bounds Test (Pesaran and Pesaran, 1997; Pesaran, Shin and Smith, 2001).

Table 3: ARDL Bounds Test

Null Hypothesis: No long-run relationships exist

Test Statistic	Value	k
F-statistic	2.522004	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
5%	2.86	4.01

Source: Authors` Computation (2020)

This study made use of the Bounds Test in examining the long run relationship between external debt and economic growth in Nigeria. It could be submitted that external debt and economic growth did not have a long run relationship because from the table, the value of F-Statistic is less than the upper and lower Critical Value Bounds at 5% level of significance. Therefore, the Null hypothesis of no long run relationship could not be rejected in the table. This implies that cointegrating relationship does not exist between external debt and economic growth in the country. This motivated estimation of short run relationship between the studied variables in the study.

Table 4: The Relationship External Debt and Economic Growth in Nigeria
Dependent Variable: EC
Method: ARDL

Short Run	Coefficient	T-statistics	Probability
EC(-1)	-0.611914**	2.817204	0.0226
ExtD	-4.0E+147**	2.448278	0.0346
DSP	1.2E+145*	1.820742	0.1061
Exch	-1.2E+149*	1.857539	0.1003
FR	5.9E+144***	4.121464	0.0033
R-Squared	0.77		
DW	2.699954		

Source: Authors` Computation (2020) *Significant at 10%, **Significant at 5%, ***Significant at 1%

The above table shows estimated results of external debt and economic growth nexus in Nigeria. It is instructive to state that external debt and debt service payment did not have the expected sign. Meanwhile, the R- Squared of the estimated model indicates that all independent variables explained about 77% of the systematic variations in the dependent variable, economic growth while 23% was left unaccounted for as a result of a random chance. The lagged value of economic growth shows that past economic growth has a significant negative relationship with the present economic growth in Nigeria.

Similarly, external debt and economic growth have a negative relationship. This relationship is significant at 5% level of significance. A unit change in eternal debt reduces economic growth by 4% in the country.

This finding is supported by the submission of Udeh, Ugwu and Onwuka (2016), Ogege and Ekpudu (2010) in a similar studies in Nigeria. While it contradicts the finding of Sulaiman and Azeez (2012) in a related study in country. However, debt servicing and economic growth have a positive relationship. The relationship is significant at 10% level of significance. A unit change in debt servicing leads to an increase in economic growth by 1.2%. This finding contradicts the argument of Udeh, Ugwu and Onwuka (2016). Similarly, exchange rate and economic growth have an inverse relationship which is significant at 10% level of significant. A unit change in exchange rate brings economic growth down by 1.2% in the country. Whereas, the relationship between foreign reserves and economic growth is positive significantly. A unit change in foreign reserves brings about an increment in the Nigerian economic growth by 5.9%.

Conclusions

While investigating the nexus between external debt and economic growth in Nigeria from 1981 to 2018, this study employed ARDL and Bounds Test to address its objective. The significant contributions of this study to the field of research are as follows; past economic growth did not contribute to the present economic growth in Nigeria. In the same vein, external debt caused a significant setback to economic growth in Nigeria. Meanwhile, debt servicing and economic growth had a direct relationship in the country. Exchange rate contributed a negative impact on economic growth. Whereas, the foreign reserves contributed a positive significant impact on economic growth in Nigeria,

Consequently, the emergence of these crucial findings make this study to recommend the following for the policy makers in Nigeria in particular, and other highly indebted countries in Africa that past external debts in Nigeria are inhibitors to economic growth in the country. Therefore, policymakers in Nigeria should explore other means of financing country`s deficit budget rather than external debt.

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